China Merchants China Direct Investments Limited

(Incorporated in Hong Kong with limited liability) (Stock Code: 133)

Annual Report 2007

Contents

Corporate Information

BOARD OF DIRECTORS

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

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)

* *members of Investment Committee*

AUDIT COMMITTEE

Dr. The Hon. David, LI Kwok-po
Mr. KUT Ying Hay
Mr. WANG Jincheng

INVESTMENT MANAGER

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

PRINCIPAL BANKERS

Industrial and Commercial Bank of China (Asia) Limited
China Merchants Bank Company, Limited
Bank of China (Hong Kong) Limited
Dah Sing Bank, Limited

COMPANY SECRETARY

Mr. Peter Y. W. Lee

AUDITOR

Deloitte Touche Tohmatsu

LEGAL ADVISERS

Linklaters
Victor Chu & Co

SHARE REGISTRAR

Computershare Hong Kong Investor Services Limited
17th Floor, Hopewell Centre,
183 Queen's Road East,
Hong Kong

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

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

Stock Code: 0133.HK
Web-site: www.cmcdi.com.hk

Chairman's Statement

Dr. Fu Yuning
Chairman

The Board of Directors (the "Board") is pleased to announce 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 2007, amounted to US$905,334,943. The net asset value per share was US$6.07, compared to US$1.917 in 2006, an increase of 217%. For the year of 2007, the Group's audited consolidated profit after taxation was US$594.67 million. This represents an increase of 415% from 2006.

In 2007, China's economy rode the cyclical uptrend and continued its rapid growth. However, the likelihood of the rapidly growing economy turning into an overheated one also increased, with indicators such as excess liquidity as a result of the continually growing surplus of international payments, and increasing inflation pressure from rising prices of food and assets. To maintain economic growth at a measured pace, the Central Government implemented a variety of policies, such as the successive adjustments of the Renminbi deposit and lending interest rates, as well as the required reserve ratio, the issuance of special government bonds, the imposition of higher environmental protection standards, the adjustments of export tax rebates, and increased efforts of cracking down on illegal land uses. Consequently, over the year, the GDP increased by 11.4% from the previous year, indicating that the economy continued to expand at a healthy and relatively fast pace, with improving infrastructure, increasing profitability of enterprises, and higher living standards of the general public.

The stability and rapid growth of the national economy, and the on-going economic reforms also enabled the China capital market to develop quickly, which benefited the financial services industry, the sector which represents a significant proportion of the Group's investment. The China stock market was robust in 2007, with stock indexes surging and trading volume increasing by more than 400% year-on-year. During the year, because of the outstanding performance of share prices of both the China Merchants Bank, which has completed its share reform plan, and the Industrial Bank, which was listed on the Shanghai Stock Exchange in early 2007, the Group's net asset value raised substantially. Further, the Group's investments in the securities industry also enjoyed substantial increases in both operating income and profit after tax, due to the booming securities market. The Group's investments in a trust company enjoyed similar return as well. The active securities market will allow the Group to bring to fruition some of its other investment projects, and facilitate project exit. Some of these projects are already undergoing preparation for their initial public offering. Furthermore, because the majority of the Group's assets are denominated in Renminbi, the Group benefited from the 6.53% appreciation of the Renminbi against the US dollar in 2007.

As of the end of 2007, the Group's total investment in direct investment projects amounted to US$1,214.53 million, representing an increase of US$937.05 million over 2006, and accounted for 96.23% of the Group's total asset value. The growth was mainly attributed to the substantial increase in the value of the Group's banking projects. During 2007, the Group increased the size of investment in publicly trade equities, and subsequently liquidated all of its holdings at the end of the year. Consequently, the Group did not hold any trade equities portfolio at the end of 2007. As of 31 December 2007, investments in bonds and notes amounted to US$1.67 million, and accounted for 0.13% of the total asset value. Cash on hand was US$45.69 million, and accounted for 3.62% of the total asset value.

Chairman's Statement *(continued)*

The Investment Manager actively sought new investment opportunities throughout 2007. Based on their extensive research, the Company contributed US$23 million to co-invest in the project of NBA China, L.P., with United States' National Basketball Association (NBA) and other internationally renowned investment institutions, in the beginning of 2008.

In January 2008, the Company obtained a shareholders' mandate to dispose of its holdings in Industrial Bank. The Group will seize the opportunity to sell its holdings on the stock market. The proceeds will put the Group in a stronger and more flexible financial position, and enable the Group to capture new investment opportunities and maximise shareholders' return.

Despite the remarkable results achieved in 2007, the Group is facing challenges in the year ahead, due to a number of factors that create uncertainties in both the domestic and global economy; the deterioration of the US sub-prime mortgage crisis, the slowdown of global economic growth, the increasing domestic inflation pressure, and the increasing difficulties of the Central Government's macro-economic control. Looking forward to 2008, the Central Government is likely to continue implementing its conservative fiscal policy, as well as tightening monetary policy, as a way of exercising more macro-economic control to curb inflation and contain excess liquidity issue. Consequently, there is increasing pressure of a correction to the China capital market. This will impact the performance of the Group in the short term. However, in the medium to long term, China's economy will continue to develop rapidly but steadily, with more diversified economic growth engines, as well as a more diversified and maturing capital market, all of which promise broader range of opportunities for the Group. The Group will leverage the favorable environment of economic growth, and strive to identify new investment opportunities to increase shareholders' return.

Lastly, on behalf of the Board, I would like to give my heartfelt gratitude to the members of the Audit Committee and Investment Committee, and all their staff of the Investment Manager, for their contributions and dedication, and to the shareholders, for their support. Meanwhile, I will give my best effort to lead the Group in the continual pursuit of creating value for shareholders in the coming year.

Dr. Fu Yuning
Chairman

Hong Kong, 25 April 2008

Investment Manager's Discussion and Analysis

Mr. Hong Xiaoyuan
Chairman of the Board of the Investment Manager

OVERALL PERFORMANCE

China Merchants China Direct Investments Limited and its subsidiaries (the "Fund") recorded a profit attributable to equity shareholders of US$594.67 million for the year ended 31 December 2007, representing an increase of 415% over the year 2006. This was attributable to a significant gain on change in fair value of financial assets designated at fair value through profit or loss (the "financial assets"). As of 31 December 2007, the net assets of the Fund were US$905.33 million (31 December 2006: US$262.87 million), with a net asset value per share of US$6.07 (31 December 2006: US$1.917).

Total investment income for the year increased by 59% to US$8.67 million (2006: US$5.44 million). This was due mainly to a significant increase in interest income and dividend income and the resumption of dividend payments by the investee companies.

For the year 2007, gain on change in fair value of the financial assets was US$917.35 million (2006: US$150.40 million). The significant change in the fair value was attributed to the favourable valuation of both China Merchants Bank and Industrial Bank whose values increased by US$413.36 million and US$494.16 million respectively against the end of 2006.

MATERIAL ACQUISITION

The Fund has been actively searching for investment opportunities, lots of due diligence were done on projects in financial services, manufacturing, consumer related and pharmaceutical industry, etc. The Fund agreed to cooperate with National Basketball Association of United States by the end of 2007 and invested US$23 million in NBA China, L.P. in early 2008.

LIQUIDITY, FINANCIAL RESOURCES, GEARING AND CAPITAL COMMITMENTS

In January 2007, the Fund entered into a placing and subscription agreement to place 12 million ordinary shares by way of placing and top-up subscription and raised an amount of US$29.17 million.

The Fund's cash on hand increased by 65%, from US$27.67 million as at the end of 2006 to US$45.69 million as of 31 December 2007, due to the fund raising exercise and the disposal of trade equities as well as bonds and notes.

As of 31 December 2007, the Fund had no outstanding bank loans (2006: Nil).

As of 31 December 2007, the Fund had a capital commitment of US$23 million (2006: Nil), being an investment that has been authorised but not yet provided for in the financial statements.

EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES AND RELATED HEDGES

Most of the Fund's investments are located in China where the official currency is the Renminbi ("RMB"). 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 net assets denominated in the RMB.

EMPLOYEES

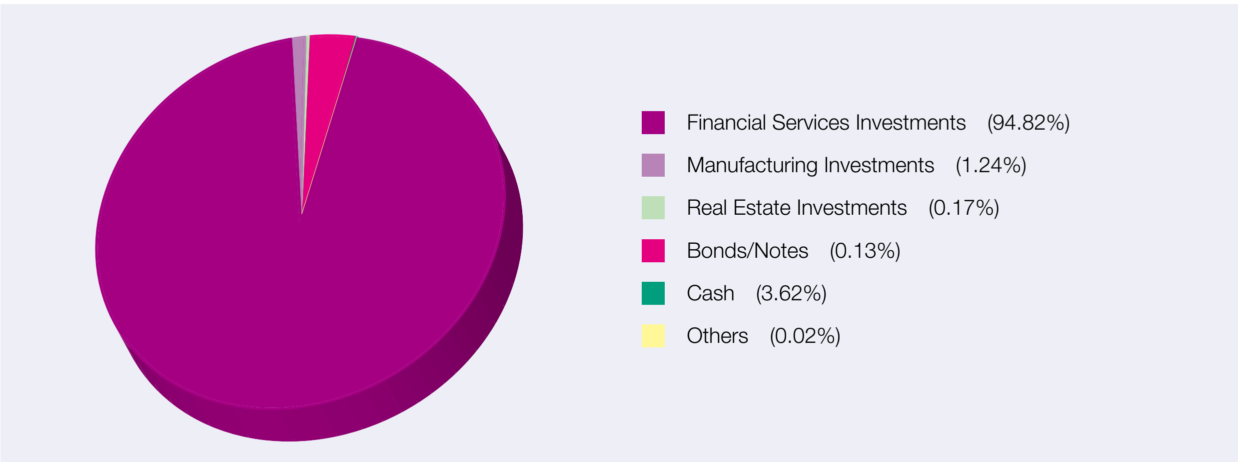
Other than a qualified accountant whose remuneration packages are borne by the Investment Manager, the Fund has no salaried employees. The Investment Manager handles the portfolio and day-to-day administration of the Fund.

THE PORTFOLIO

As of 31 December 2007, the Fund had total investments of US$1,216.20 million – US$1,214.53 million in direct investments, US$1.67 million in bonds, notes and callable deposits. The major direct investment projects (Note) were in financial services (94.82% of total assets), manufacturing (1.24%) and real estate (0.17%). In addition, the Fund had cash on hand of US$45.69 million, accounting for 3.62% of the Fund's total assets.

Note: Unlisted equity interests for two investments in banking sector were acquired by the Fund initially. At present, those interests have already become listed equity interests.

TOTAL ASSETS DISTRIBUTION *(AS AT 31 DECEMBER 2007)*



Ms. Zhou Linda Lei
Managing Director of the Investment Manager

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

REVIEW OF DIRECT INVESTMENTS

The following table shows the major direct investment projects held by the Fund as at 31 December 2007:

Name of Projects	Location	Business Nature	Net Book Value (US$ million)	Percentage of Total Assets
Financial Services:				
1. China Merchants Bank Co., Ltd. (Note)	Shenzhen, Guangdong	Banking	607	48.13
2. Industrial Bank Co., Ltd. (Note)	Fuzhou, Fujian	Banking	560	44.39
3. China Credit Trust Co., Ltd.	Beijing	Trust management	22	1.75
4. China Merchants Securities Co., Ltd.	Shenzhen, Guangdong	Securities	3	0.23
5. Industrial Securities Co., Ltd.	Fuzhou, Fujian	Securities	2	0.19
6. Jutian Investment Co., Ltd.	Shenzhen, Guangdong	Investment	–	–
7. Jutian Fund Management Co., Ltd.	Shenzhen, Guangdong	Fund management	2	0.13
		Sub-total:	1,196	94.82
Manufacturing:				
8. Shandong Jinbao Electronics Co., Ltd.	Zhaoyuan, Shandong	Copper foil & laminates	16	1.24
		Sub-total:	16	1.24
Real Estate:				
9. Langfang Oriental Education Facilities Development Co., Ltd.	Langfang, Hebei	Student dormitory	2	0.17
10. Shenzhen Man Kam Square	Shenzhen, Guangdong	Retail shops	–	–
11. China Merchants Plaza (Shanghai) Property Co., Ltd.	Shanghai	Office & commercial	–	–
		Sub-total:	2	0.17
		Total:	1,214	96.23

Note: Unlisted equity interests for such investments were acquired by the Fund initially. At present, such interests have already become listed equity interests.

China Merchants Bank Company, Limited ("CMB"), is the first joint-stock commercial bank established by enterprises. Its shares were first listed on the Shanghai Stock Exchange in 2002. CMB now has over 570 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. The net book value of the Fund's investment in CMB was US$607.33 million, representing an increase of US$425.88 million from the end of 2006. CMB's net profit for 2007 was RMB15.2 billion, up 124% from the previous year. At the end of 2007, the net asset value per share of CMB was RMB4.62. In 2007, the Fund received a cash dividend of RMB14.71 million for the year of 2006 from CMB.

In August 2007, upon regulatory approval, CMB acquired 33.4% equity interest in China Merchants Fund Management Co., Ltd., a domestically registered securities investment fund management company, from four other corporations, making CMB the largest shareholder of China Merchants Fund Management Co., Ltd.

In October 2007, CMB was approved by the China Banking Regulatory Commission ("CBRC") to establish a finance leasing company.

In November 2007, the Board of Directors of CMB passed a resolution regarding the acquisition of 10% equity interest in Taizhou Commercial Bank for approximately RMB271 million, pending regulatory approval.

The share reform plan of CMB was completed in February 2006. Therefore, the lock-up period of the CMB shares held by the Fund has expired in February 2008.

Industrial Bank Company, Limited ("IBCL") was listed on the Shanghai Stock Exchange in February 2007. It has over 390 branches and offices across the country. Since 1998, the Fund has cumulatively invested RMB146 million (equivalent to US$17.62 million) in IBCL, and held a 1.68% equity interest in IBCL at the balance sheet date. The net book value of the Fund's investment in IBCL was US$560.17 million, representing an increase of US$498.42 million from a year ago. In 2007, IBCL recorded a net profit of RMB8.59 billion, up 126% from the previous year. At the end of 2007, the net asset value per share of IBCL was RMB7.78. In 2007, the Fund received a cash dividend of RMB21.84 million for the year of 2006 from IBCL.

The lock-up period of the IBCL shares by the Fund has expired in February 2008.

In March 2007, IBCL issued bonds in the domestic interbank bond market, of the amount RMB19 billion, to secure funds to pursue high quality asset items.

China Credit Trust Company, Limited ("CCT"), formerly known as China Coal Trust Company, Limited, was established in 1995. The Chinese company name was changed in 2007 to comply with new statutory requirements. The principal activities of CCT are trust management, fund management, investments and loan financing. The Fund invested US$15.31 million in CCT in 2005, and holds a 6.8167% stake.

The new regulations promulgated in 2007 stipulated stronger oversight of the business activities of trust companies, which had impacted the growth of trust products related to real estate loans. However, benefiting from the robust A Shares market in China, revenues from proprietary securities trading, from securities trust products, and from long-term equity investments significantly increased in 2007. CCT recorded an unaudited net profit of RMB478 million for 2007, representing an increase of 74% over 2006. In 2007, the Fund received a cash dividend of US$1.40 million for 2006 from CCT.

At the shareholders meeting of CCT in April 2007, a resolution was passed which agreed in principle that CCT shall raise additional capital from securing a new strategic investor. It authorised the management of CCT to negotiate with the new investor. Currently, CCT management is seeking legal and regulatory clearance on this matter.

China Merchants Securities Company, Limited (“CMSC”) is a comprehensive securities company registered in the PRC. Its businesses include IPO underwriting, 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. Benefiting from the robust A Shares market in China, CMSC enjoyed substantial growth across the board. In 2007, the Fund received from CMSC a cash dividend of RMB5.39 million for 2006 and for the first half of 2007.

In early September 2007, CMSC became the second brokerage firm in China to be awarded the QDII qualification. In addition, CMSC obtained approval from the China Securities Regulatory Commission (“CSRC”), to acquire 100% stake of Xinjiye Futures Broker Company Limited, which has since been renamed as China Merchants Futures Company Limited, raising its registered capital to RMB120 million.

At the shareholders meeting in June 2007, the resolution concerning the application for the listing of its A Shares was approved. CMSC is now actively preparing for the listing of its A Shares.

Towards the end of 2007, CMSC acquired 48% equity interest in Bosera Asset Management (“Bosera”) through auction, pending regulatory approval. Upon completion of the acquisition, CMSC would become the largest shareholder of Bosera, holding 73% equity interest in total. At the end of 2007, Bosera ranked the first in China, in terms of total value of assets under its management.

Industrial Securities Company, Limited (“ISCL”) is a comprehensive securities company registered in the PRC. Its businesses include IPO underwriting, securities underwriting, brokerage, proprietary trading, and investment consulting. The Fund invested RMB8.51 million (equivalent to US$1.03 million) in 1999, and held a 0.45% equity interest in ISCL at the balance sheet date. Benefited from the buoyant domestic stock market in 2007, ISCL enjoyed significant revenue growth in all of its businesses. ISCL recorded an unaudited net profit of RMB2.03 billion in 2007, representing an increase of 560% over 2006. The profit from 2007 fully offset the significant losses ISCL sustained in previous years. Therefore, the Fund revalued its investment in ISCL during the year and recorded a gain of US$2.40 million.

Upon review and approval by the Securities Association of China, ISCL became an innovative securities firm at the end of August 2007.

In August 2007, ISCL was approved by the CSRC to acquire a 69% equity interest in Huashang Futures Brokers Company Limited (“Huashang Futures”) with additional capital investment of RMB30 million to Huashang Futures, raising the total registered capital of Huashang Futures to RMB60 million. Subsequently, ISCL further increased its equity interest in Huashang Futures to 91.55%, raising its total capital to RMB110 million, and renamed Huashang Futures to Industrial Futures Company, Limited.

ISCL’s capital and share expansion plan was approved by the CSRC in September 2007, increasing its registered capital from RMB908 million to RMB1.49 billion. The equity interest held by the Fund in ISCL was diluted from 0.72% to 0.45%, because the Fund was not invited to subscribe to new shares. The holding of Fujian Provincial Department of Finance was increased from 11.795% to 21.08%, further consolidating its position as the largest shareholder of ISCL.

Jutian Investment Company, Limited ("Jutian Investment"), formerly known as Jutian Securities Company, Limited ("Jutian Securities"), has seen a change in its title, as well as the scope of its business, as a result of losing its license in securities operation. In 2001, the Fund invested RMB35.36 million (equivalent to US$4.27 million) in Jutian Securities, representing an equity interest of 4.66% in Jutian Securities. The Fund wrote off the full amount of this investment project in 2005.

Since 13 October 2006, the CSRC has appointed an Administrative Liquidation Task Force to restructure Jutian Securities, and has appointed CMSC as the custodial body to take over the operation of Jutian Securities' brokerage business and all of its sales offices.

As the domestic A Shares market flourished and the trading volume in the securities market surged during the same period, operating profit and proceeds from disposal of assets of Jutian Securities allowed Jutian Securities to replenish all of its customers' deposits. Jutian Securities was therefore able to retain its legal person qualification, and no longer remains in restructuring. However, its securities trading license was revoked. As a result, its sixteen sales branches were transferred to CMSC on 1 June 2007. Jutian Securities completed the change of business registration at the end of October 2007, and was renamed as Jutian Investment Company, Limited. The equity interest held by the Fund remains at 4.66%.

Jutian Investment is fully committed to recovering outstanding loans, disposing assets, and settling remaining litigations. It remains to be seen whether shareholders of Jutian Investment will be able to recover any of their losses.

Jutian Fund Management Company, Limited ("JFM") was incorporated in 2003 with a registered capital of RMB100 million. The Fund invested RMB10 million (equivalent to US$1.21 million) in 2003, and holds a 10% equity interest in JFM.

In mid 2007, JFM redeemed all of its own investments in funds managed by JFM, realising considerable amount of investment income and dividend income. JFM's net profit reached RMB31.96 million in 2007, representing an increase of 211% over the restated net profit in the same period of last year.

Supported by the buoyant domestic equity market, and investors' active participation in fund investment, the size of funds managed by JFM increased from RMB499 million (of which equity funds accounted for RMB285 million) in the end of 2006, to RMB4.13 billion (of which equity funds accounted for RMB3.74 billion) in the end of 2007.

CSRC suspended any applications from JFM to launch new funds temporarily, after it ordered Jutian Securities, the major shareholder of JFM, to restructure in October 2006. Furthermore, according to applicable regulations, since Jutian Securities' license in securities operation was revoked, it also lost its status as the major shareholder of JFM. JFM has identified new qualified investors which meet the relevant requirements to acquire Jutian Securities' equity interest and become the major shareholder of JFM. The transfer is now pending regulatory approval.

Shandong Jinbao Electronics Company, Limited ("Jinbao"), formerly known as Zhaoyuan Jinbao Electronics Company, Limited ("Jinbao Electronics"), was incorporated in Zhaoyuan City of Shandong Province in 1993. It was renamed as Shandong Jinbao Electronics Company, Limited, after transitioning to a joint-stock company in 2007.

On 15 September 2007, a resolution was passed at the inaugural shareholders meeting of Jinbao, regarding dividing Jinbao Electronics' audited net assets proportionately into shares of stocks, and thus transforming the company into a joint-stock company. The original principal business and equity structure remain unchanged, in order to satisfy the listing requirements. Upon regulatory approval, Jinbao completed all the necessary processes to change its commercial registration on 20 September of the same year. Upon its completion, the Fund continues to hold 30% equity interest in Jinbao, and the cumulative investment remains at US$7.85 million.

On 29 October 2007, a resolution for an initial public offering by the issue of not to exceed 100 million shares, and listing of ordinary shares (A Shares) in the domestic market, was passed in the shareholders meeting of Jinbao. Currently, the preparation work for IPO is in progress.

In 2007, Jinbao achieved satisfactory sales performance, and recognised revenue of RMB1.34 billion, and a net profit of RMB76.86 million, representing an increase of 16% and 41%, respectively, over 2006. The dramatic increase in net profit was due to a higher increase of average selling price than the increase of material cost, as well as revaluation of its assets.

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, which has a capacity of approximately 17,000 students. It accommodated some 16,000 students in the school year of 2007/2008, similar to that in the school year of 2006/2007. Except for rooms with inferior amenities, all were nearly fully occupied.

In 2007, Oriental reinvestigated all of its taxation issues since its establishment, and took a one-time charge. Thus, the net profit for 2007 was RMB2.63 million, representing a decrease of 64% from the same period of last year.

The ultimate controlling shareholder of Oriential entered into an agreement with Raffles Education Corp. of Singapore at the end of December 2007, to transfer the assets of University City in several stages, including its holding in Oriental. The transfer has no direct impact on the equity interest held by the Fund in Oriental.

Shenzhen Mankam Square ("Mankam") is a 33-storey business, commercial complex on North Wen Jin Road, Shenzhen. In 1994, the Fund invested US$4.30 million through Hansen Enterprises Limited, which has a 35% equity interest in the complex, to purchase 5,262 square metres of retail space on the third floor of Mankam. The Fund wrote off the full amount of this investment in 2005. The Fund continues to actively search for sales opportunity for Mankam.

China Merchants Plaza (Shanghai) Property Company Limited ("China Merchants Plaza") was established in Shanghai in 1994, to operate in the development of a commercial and business complex. The Fund invested US$5.685 million in 1994 and holds an effective equity interest of 19.8% in China Merchants Plaza. The Fund wrote off the full amount of this investment in 2000 due to substantial accumulated losses sustained by the company. The commercial complex is a 28-storey office/shop building located at North Chengdu Road, Qingan District, Shanghai, with a total saleable space of 60,086 square metres, of which 49,438 square metres remaining unsold, as at 31 December 2007. In 2007, the revenue from China Merchants Plaza was RMB64.37 million, representing an increase of 3% over the same period of last year. A net profit of RMB12.87 million was recorded, representing an increase of 91% over the prior year. The significant increase in net profit was mainly attributed to the appreciation of Renminbi against foreign currencies.

NBA China, L.P. ("NBA China") is a partnership incorporated in Cayman Islands with limited liability in 2007. The Fund invested US$23 million in January 2008, accounting for 1% of the preferred equity in NBA China. Other strategic investors hold the remaining 10% preferred equity. According to the agreement, NBA China will be the exclusive entity to operate NBA's businesses in the Greater China Region, including the television broadcasting right, advertisement, sponsorship, activities, digital media, and sales of goods and other new businesses. In addition, NBA China will capitalise on the 2008 Beijing Olympics, to actively promote basketball activities and explore other related business.

REVIEW OF LISTED INVESTMENTS

The Hong Kong stock market was highly volatile in 2007. In the first half of the year, the Hong Kong stock market benefited from favourable factors such as the continuous and rapid growth of the economy of China, increase in corporate earnings, stable appreciation of Renminbi and the expected introduction of QDII by the Central Government. The State Administration of Foreign Exchange announced the "through train" scheme in August 2007, which provided further boost to the rising stock market. The Hang Seng Index climbed to its historical high at 31,958 points on 30 October. Later, in response to the further strengthening of macro-economic control by the Central Government, the suspension of the "through train" scheme and the gradual worsening of the US sub-prime mortgage crisis, the performance of the global stock markets was affected and the Hang Seng Index tumbled rapidly. The Fund increased its investment in trade equities portfolio in the middle of the year but gradually reduced its investment by the third and fourth quarter. It sold all this investment by the end of 2007 and achieved a satisfactory return.

As at 31 December 2007, the Fund's holdings in bank notes and corporate bonds amounted to US$1.67 million (2006: 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
Notes:						
Lloyds TSB Bank LIBOR Structured Note		1.000	0.969	Note 1	–	20 August 2013 if no early redemption
		1.695	**1.665**			

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.

PROSPECTS

Looking forward into 2008, it is expected that the Central Government will implement both a conservative fiscal policy and a tight monetary policy to step up efforts in macro-economic control so as to curb inflation. The rapid growth of the GDP of China in the past few years is expected to slow down. However, it is believed that the appreciation of the Renminbi against the US dollar will continue. Domestic consumption is expected to maintain a rapid growth and the momentum of fixed investment growth will sustain. The stepping up of macro-economic control may have an adverse impact on the valuation of the financial assets held by the Fund in the short term, but in the medium to long term, it is expected that the economic development of China will maintain a rapid but stable trend and thereby to create room for long-term development for different industries, including the financial services industry.

As always, the Fund will actively identify investment projects with potential and stable returns, and focus on investments in financial services sector, while paying appropriate attention to investment projects in the consumption, pharmaceutical, energy and infrastructure sectors, so as to explore new investment opportunities and increase shareholder value of the Fund.

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

Hong Kong, 25 April 2008

Directors of the Investment Manager:

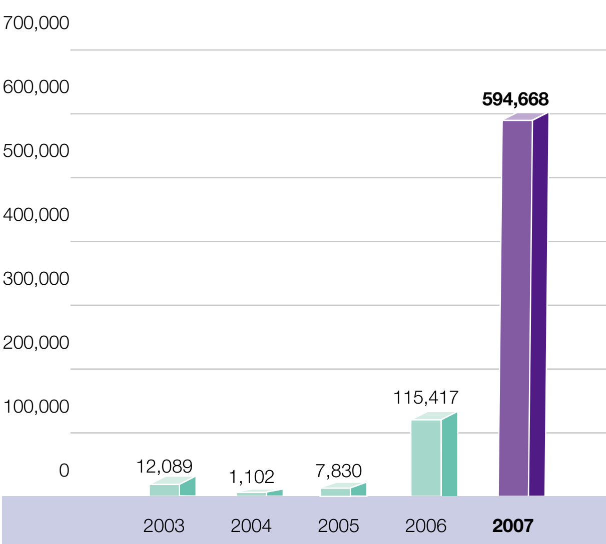
Front row from left:
Ms. Zhou Linda Lei, Mr. Hong Xiaoyuan and Mr. Ng Chi Keung;

Rear row from left :
Mr. Wu Huifeng, Mr. Tse Yue Kit and Mr. Yam Kam Shing.

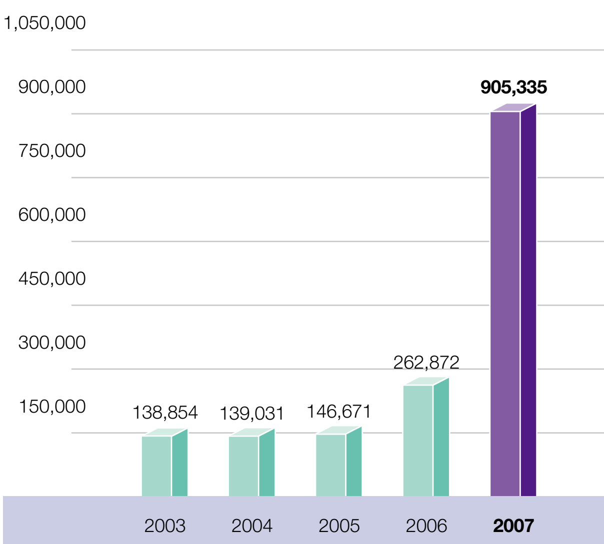
Financial Highlights

YEAR	NET PROFIT (US$'000)	NET ASSETS (US$'000)
2007	**594,668**	**905,335**
2006	115,417	262,872
2005	7,830	146,671
2004	1,102	139,031
2003	12,089	138,854

NET PROFIT (US$'000)



NET ASSETS (US$'000)



Directors' Report

The Directors present their annual report and the audited consolidated financial statements for the year ended 31 December 2007.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. The activities of the subsidiaries and associates are set out in notes 28 and 14 respectively to the consolidated financial statements.

RESULTS

The results of the Group for the year ended 31 December 2007 are set out in the consolidated income statement on page 35.

The Directors do not recommend the payment of a final dividend for the year ended 31 December 2007 (2006: Nil).

DISTRIBUTABLE RESERVES OF THE COMPANY

The Company has no reserves available for distribution as at 31 December 2007.

SHARE CAPITAL

Details of the issued share capital of the Company are set out in note 22 to the consolidated 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 listed shares.

DIRECTORS

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

Executive Directors

Dr. FU Yuning *(Chairman)*	
Mr. HONG Xiaoyuan	(appointed on 22 June 2007)
Mr. CHU Lap Lik, Victor	
Ms. ZHOU Linda Lei	(appointed on 6 March 2008)
Mr. TSE Yue Kit	
Dr. HUANG Dazhan	(resigned on 22 June 2007)
Mr. XIE Kuixing	(resigned on 6 March 2008)
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. GONG Jianzhong	(resigned on 25 October 2007)
Mr. WANG Xingdong	(resigned on 2 January 2008)
Mr. LI Kai Cheong, Samson *(alternate to Dr. The Hon. David LI Kwok-po*)*	
Mr. MOK Hay Hoi *(alternate to Dr. POON Kwok Lim, Steven*)*	(resigned on 1 January 2007)

* *Independent Non-executive Directors*

In accordance with Article 101 and Article 105 of the Company's Articles of Association, Dr. Fu Yuning, Mr. Chu Lap Lik, Victor, Mr. Tse Yue Kit, Mr. Hong Xiaoyuan and Ms. Zhou Linda Lei 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 51, 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 in China with a bachelor degree in Port and Waterway Engineering. He obtained a doctorate degree in Offshore Engineering from the Brunel University of the United Kingdom where he also worked as a post-doctorate research fellow.

Mr. HONG Xiaoyuan, aged 45, was appointed as an Executive Director of the Company on 22 June 2007. He has been the Managing Director of China Merchants Finance Holdings Company Limited, which is a substantial shareholder of the Company, since May 2007. He is the Chairman of the Investment Manager. He is also a Director of China Merchants Energy Shipping Company, Limited (its shares are listed on the Shanghai Stock Exchange), China Merchants Bank Company, Limited (its shares are listed on both the Shanghai Stock Exchange and the Hong Kong Stock Exchange) and China Merchants Securities Company, Limited, and the Chairman of China Merchants Finance Investment Holdings Company, Limited, China Merchants Holdings (UK) Limited, China Merchants Industry Development (Shenzhen) Limited, China Merchants Insurance Company Limited, Houlder Insurance Brokers Far East Limited and Houlder China Insurance Brokers Limited. Mr. Hong had previously served as an Officer of Department of Overall Planning of the State Commission for Restructuring Economic System of China, the General Manager of Shenzhen Longfan Enterprise Company, Limited, the Assistant General Manager of China Merchants Shekou Industrial Zone Company, Limited, the General Manager of China Merchants Property Development Company, Limited and China Merchants Technology Holdings Company, Limited, and the Deputy General Manager of China Merchants Shekou Industrial Zone Company, Limited. Mr. Hong obtained a master degree in Economics from Peking University in 1988 and a master of science degree from The Australian National University in 1992.

Mr. CHU Lap Lik, Victor, aged 50, has been an Executive Director of the Company since June 1993 and holds directorship in a subsidiary of the Company. He is also Chairman of First Eastern Investment Group which is actively involved in direct investments in the PRC. 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.

Ms. ZHOU Linda Lei, aged 39, was appointed as an Executive Director of the Company on 6 March 2008. She was an Executive Director of the Company during the period from March 2002 to September 2005 and the Managing Director of the Investment Manager during the period from March 2002 to July 2005. Ms. Zhou was re-appointed as the Managing Director of the Investment Manager on 19 February 2008. Ms. Zhou is also a Director of China Merchants Industry Development (Shenzhen) Limited, Shandong Jinbao Electronics Company, Limited and Langfang Oriental Education Facilities Development Company, Limited. Before joining the Investment Manager in April 2001, Ms. Zhou worked with ASI as a Director of Business Development – Asia Pacific Region for three years and thereafter acted as a senior financial analyst and an advisor of Board of Advisory in iLink Global. Just prior to rejoining the Investment Manager in February 2008, Ms. Zhou worked with China International Marine Containers (Group) Co., Ltd. and was responsible for leading the South America project team to study the feasibility of establishing refer container manufacturing base in Brazil and Chile and participated in other ad hoc projects. Meanwhile, Ms. Zhou is also an Independent Non-executive Director of Jiangxi Shihong Company, Limited and China Merchants Fund Management Company, Limited. Ms. Zhou has extensive experience in positioning foreign companies in China market and has actively involved with direct investments in China. Ms. Zhou obtained her Bachelor degree in Financial Accountancy from People's (Renmin) University of China in 1989 and Master of Business Administration degree from California State University at Sonoma in 1993.

Mr. TSE Yue Kit, aged 46, 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.

Ms. KAN Ka Yee, Elizabeth (alternate to Mr. CHU Lap Lik, Victor), aged 50, has been an Alternate Director of the Company since May 1999 and holds directorships in certain subsidiaries of the Company. Ms. Kan was Deputy Managing Director and a Director of the Investment Manager from 1993 to 2006. She is also Managing Director of First Eastern Investment 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, *GBM, GBS, OBE, JP, Officier de L' Ordre de la Couronne, Grand Officer of the Order of the Star of Italian Solidarity, The Order of the Rising Sun, Gold Rays with Neck Ribbon, Officier de la Légion d'Honneur* aged 69, 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 Hong Kong Stock Exchange. He is a Member of 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 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 53, 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 Hong Kong 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 since 1995. 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 a Vice-Chairman 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 51, 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.

Mr. LI Kai Cheong, Samson (alternate to Dr. The Hon. David LI Kwok-po), aged 47, 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 Hong Kong Stock Exchange, as well as a Director in a number of asset management companies.

DIRECTORS' INTERESTS IN SHARES

As at 31 December 2007, 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	Number of shares	Capacity	Nature of interest	Percentage of total issued share capital
Mr. CHU Lap Lik, Victor	6,900,000	Interest of controlled corporation	Corporate	4.63%

Note: Mr. Chu Lap Lik, Victor is deemed to have an interest in the 6,900,000 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 2007, 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 2007.

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 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' 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 Company within one year without payment of compensation (other than statutory compensation).

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2007, 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	Long/Short position	Capacity	Number of ordinary shares interested	Percentage of total issued shares
China Merchants Group Limited *(Note 3)*	Long position	Interest of controlled corporation	34,359,760	23.04%
China Merchants Steam Navigation Company Limited *(Note 3)*	Long position	Interest of controlled corporation	34,359,760	23.04%
China Merchants Holdings (Hong Kong) Company Limited *(Note 1)*	Long position	Interest of controlled corporation	34,359,760	23.04%
China Merchants Finance Holdings Company Limited *(Note 2)*	Long position	Interest of controlled corporation	34,359,760	23.04%
China Merchants Financial Services Limited *(Note 3)*	Long position	Interest of controlled corporation	33,989,760	22.79%
Good Image Limited	Long position	Beneficial owner	33,989,760	22.79%
Deutsche Bank Aktiengesellschaft	Long position	Beneficial owner	1,823,947	7.06%
		Security interest	8,707,053	
	Short position	Beneficial owner	162,000	0.11%
華夏全球精選股票型證券投資基金	Long position	Beneficial owner	9,682,000	6.49%
Lazard Asset Management LLC	Long position	Investment Manager	7,706,000	5.17%

Note 1: China Merchants Holdings (Hong Kong) Company Limited is deemed to have corporate interests in the shares by virtue of its controlling shareholding (i.e. 99.32%) in the company whose name is set out immediately under it.

Note 2: China Merchants Finance Holdings Company Limited is deemed to have corporate interests in the shares by virtue of its entire shareholding in Everlink Limited and the company whose name is set out immediately under it.

Note 3: China Merchants Group Limited, China Merchants Steam Navigation Company Limited and China Merchants Financial Services Limited are deemed to have corporate interests in the shares by virtue of its entire shareholding in the company whose name is set out immediately under it.

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, throughout the year of 2007, 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. Mr. Hong Xiaoyuan (appointed on 22 June 2007), Dr. Huang Dazhan (resigned on 22 June 2007), Mr. Chu Lap Lik, Victor, Ms. Zhou Linda Lei (appointed on 6 March 2008), Mr. Xie Kuixing (resigned on 6 March 2008) and Mr. Tse Yue Kit are Directors of both the Company and Investment Manager. Mr. Chu Lap Lik, Victor has 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.

EVENT AFTER BALANCE SHEET DATE

Details of event after balance sheet date are set out in note 26 to the consolidated financial statements.

AUDITOR

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

On behalf of the Board

Dr. Fu Yuning
Chairman

Hong Kong, 25 April 2008

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 deviation 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.

THE BOARD OF DIRECTORS

As at 31 December 2007, the Board consisted of five Executive Directors and four Non-executive Directors of whom three are independent as defined by the Listing Rules. The biography of the Directors are set out on pages 21 to 24 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 regular Board meetings during the year under review. The attendance of each of the Director and Alternate Director is as follows:

	Attendance/Number of Meetings during the Director's term of office in 2007
Executive Directors:	
Dr. FU Yuning *(Chairman)*	0/4
Mr. HONG Xiaoyuan (appointed on 22 June 2007)	1/2
Dr. HUANG Dazhan (resigned on 22 June 2007)	0/2
Mr. CHU Lap Lik, Victor	0/4
Mr. XIE Kuixing	4/4
Mr. TSE Yue Kit	4/4
Non-executive Directors:	
Mr. WANG Xingdong	1/4
Mr. GONG Jianzhong (resigned on 25 October 2007)	0/3

THE BOARD OF DIRECTORS *(continued)*

	Attendance/Number of Meetings during the Director's term of office in 2007
Independent Non-executive Directors:	
Dr. The Hon. David LI Kwok-po	0/4
Mr. KUT Ying Hay	1/4
Dr. POON Kwok Lim, Steven (resigned on 1 January 2007)	0/0
Mr. WANG Jincheng (appointed on 27 March 2007)	1/3
Alternate Directors:	
Ms. KAN Ka Yee, Elizabeth *(alternate to Mr. CHU Lap Lik, Victor)*	3/4
Mr. LI Kai Cheong, Samson *(alternate to Dr. The Hon. David LI Kwok-po)*	3/4
Mr. MOK Hay Hoi *(alternate to Dr. POON Kwok Lim, Steven)* *(resigned on 1 January 2007)*	0/0
Mr. XIE Kuixing *(alternate to Mr. KUT Ying Hay)* (appointed on 27 March 2007 for one day)	1/1
Mr. TSE Yue Kit *(alternate to Dr. HUANG Dazhan)* (appointed on 27 March 2007 for one day)	1/1

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 independent auditor;
- considering the audit fees;

THE BOARD OF DIRECTORS *(continued)*

The Audit Committee *(continued)*

- reviewing the interim and annual results;
- reviewing internal control and risk management systems;
- discussing the potential audit issues with the independent auditor.

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

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 2007;
- reviewed the interim report and the interim results announcement for the six months ended 30 June 2007;
- reviewed the audit plan for year 2007 to assess the general scope of audit work;
- reviewed the audited accounts and final results announcement for year 2006;
- considered the internal control review reports prepared by the Company's independent auditor.

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

THE BOARD OF DIRECTORS *(continued)*

The Investment Committee

The Board has established an Investment Committee of five 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.

A meeting was held during the year for approving a proposal of disposal of the Company's investment in Industrial Bank Company, Limited and a proposal of the investment in participating preferred units issued by NBA China, L.P.

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. For year 2007, the Managing Director of the Investment Manager was Mr. XIE Kuixing, who was 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 Association 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 25 May 2007, it was resolved that the remuneration of the Directors for the year ending 31 December 2007 be fixed by the Board. The total remuneration payable to the Directors for the year ended 31 December 2007 is stated in note 9 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.

At the board meeting held on 27 March 2007, Mr. WANG Jincheng was appointed as Independent Non-executive Director of the Company. Directors present at that meeting were Mr. XIE Kuixing (also as alternate to Mr. KUT Ying Hay), Mr. TSE Yue Kit (also as alternate to Dr. HUANG Dazhan), Ms. KAN Ka Yee, Elizabeth (alternate to Mr. CHU Lap Lik, Victor) and Mr. WANG Xingdong.

At the board meeting held on 22 June 2007, Mr. HONG Xiaoyuan was appointed as Executive Director of the Company. Directors present at that meeting were Mr. XIE Kuixing, Mr. TSE Yue Kit, Ms. KAN Ka Yee, Eilzabeth (alternate to Mr. CHU Lap Lik, Victor), Mr. WANG Xingdong and Mr. LI Kai Cheong, Samson (alternate to Dr. The Hon. David LI Kwok-po).

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.

AUDITOR’S REMUNERATION

The Company has appointed Deloitte Touche Tohmatsu as the Company’s independent auditor. During the year under review, the fees paid or payable to the Company’s independent auditor for audit services provided is US$87,961 and for non-audit services provided is US$39,240 which was solely for the purpose of reviewing the internal control systems.

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 gives 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.

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 independent auditor of the Company about their reporting responsibilities on the financial statements is set out in the Independent Auditor’s Report 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 Deloitte Touche Tohmatsu, 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 67, which comprise the consolidated and Company balance sheets as at 31 December 2007, 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 2007 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
25 April 2008

Consolidated Income Statement

For the year ended 31 December 2007

	Notes	**2007 US$**	2006 US$
Investment income	6	**8,669,147**	5,443,293
Change in fair value of financial assets designated at fair value through profit or loss		**917,350,318**	150,400,480
Net gain on disposal of an associate		**–**	1,019,051
Other income		**1,967,603**	1,434,878
Administrative expenses		**(121,750,784)**	(21,744,834)
Share of results of associates		**3,422,469**	1,203,233
Profit before taxation	8	**809,658,753**	137,756,101
Taxation	11	**(214,990,720)**	(22,338,826)
Profit attributable to equity shareholders		**594,668,033**	115,417,275
Basic earnings per share	12	**4.041**	0.842

Consolidated Balance Sheet

At 31 December 2007

	Notes	2007 US$	2006 US$
Non-current assets			
Interests in associates	14	**17,898,812**	13,983,895
Financial assets at fair value through profit or loss	15	**637,431,863**	266,160,877
Other investments in financial assets	16	**697,011**	5,698,563
		656,027,686	285,843,335
Current assets			
Financial assets at fair value through profit or loss	15	**560,168,661**	–
Other receivables	18	**99,308**	106,766
Cash and bank balances	19	**45,687,332**	27,672,116
		605,955,301	27,778,882
Current liabilities			
Other payables	20	**110,098,943**	19,036,410
Taxation payable		**163,558**	51,533
		110,262,501	19,087,943
Net current assets		**495,692,800**	8,690,939
Total assets less current liabilities		**1,151,720,486**	294,534,274
Non-current liability			
Deferred taxation	21	**246,385,543**	31,662,164
Net assets		**905,334,943**	262,872,110
Capital and reserves			
Share capital	22	**14,914,560**	13,714,560
Reserves		**890,420,383**	249,157,550
Total capital and reserves		**905,334,943**	262,872,110
Net asset value per share	24	**6.070**	1.917

The consolidated financial statements on pages 35 to 67 were approved and authorised for issue by the Board of Directors on 25 April 2008 and are signed on its behalf by:

Mr. Hong Xiaoyuan
Director

Ms. Zhou Linda Lei
Director

Balance Sheet

At 31 December 2007

	Notes	2007 US$	2006 US$
Non-current assets			
Investments in subsidiaries	13	**10,000,007**	10,000,006
Financial assets at fair value through profit or loss	15	**22,145,343**	17,725,455
Amounts due from subsidiaries	17	**8,888,943**	9,548,141
		41,034,293	37,273,602
Current assets			
Amounts due from subsidiaries	17	**42,694,947**	53,496,742
Other receivables	18	**35,417**	28,618
Tax recoverable		**–**	118
Cash and bank balances	19	**33,540,827**	10,575,663
		76,271,191	64,101,141
Current liabilities			
Amount due to a subsidiary	17	**2,349,289**	1,073,393
Other payables	20	**110,098,531**	19,036,067
		112,447,820	20,109,460
Net current (liabilities) assets		**(36,176,629)**	43,991,681
Total assets less current liabilities		**4,857,664**	81,265,283
Non-current liability			
Deferred taxation	21	**684,661**	242,672
Net assets		**4,173,003**	81,022,611
Capital and reserves			
Share capital	22	**14,914,560**	13,714,560
Reserves	23	**(10,741,557)**	67,308,051
Total capital and reserves		**4,173,003**	81,022,611

Mr. Hong Xiaoyuan
Director

Ms. Zhou Linda Lei
Director

Consolidated Statement of Changes in Equity

For the year ended 31 December 2007

	Share capital US$	Share premium US$	Exchange reserve US$	General reserve US$	Retained profits US$	Total US$
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 not recognised in the consolidated income statement	–	–	309,836	–	–	309,836
Share of changes in reserve of associates	–	–	474,037	–	–	474,037
Net income recognised directly in equity	–	–	783,873	–	–	783,873
Profit for the year	–	–	–	–	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
Exchange difference on translation not recognised in the consolidated income statement	**–**	**–**	**18,749,711**	**–**	**–**	**18,749,711**
Share of changes in reserve of associates	**–**	**–**	**(122,111)**	**–**	**–**	**(122,111)**
Net income recognised directly in equity	**–**	**–**	**18,627,600**	**–**	**–**	**18,627,600**
Profit for the year	**–**	**–**	**–**	**–**	**594,668,033**	**594,668,033**
Total income recognised for the year	**–**	**–**	**18,627,600**	**–**	**594,668,033**	**613,295,633**
Issue of ordinary shares	**1,200,000**	**27,967,200**	**–**	**–**	**–**	**29,167,200**
Transfer to general reserve	**–**	**–**	**–**	**500,880**	**(500,880)**	**–**
Balance at 31 December 2007	**14,914,560**	**109,493,184**	**20,799,512**	**2,055,131**	**758,072,556**	**905,334,943**

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 2007

	2007	2006
	US$	US$
OPERATING ACTIVITIES		
Profit before taxation	**809,658,753**	137,756,101
Adjustments for:		
Share of results of associates	**(3,422,469)**	(1,203,233)
Interest income	**(1,716,488)**	(774,778)
Dividend income from equity investment	**(6,952,659)**	(4,668,515)
Unrealised gain on financial assets designated at fair value through profit or loss	**(914,951,375)**	(149,763,178)
Net loss on disposal of other investments in financial assets	**14,034**	–
Net gain on disposal of an associate	**–**	(1,019,051)
Operating cash flows before movements in working capital	**(117,370,204)**	(19,672,654)
Decrease in financial assets at fair value through profit or loss	**1,692,998**	3,040,356
Increase in other receivables	**(1,225)**	(536)
Increase in other payables	**91,062,533**	17,734,188
Cash used in operations	**(24,615,898)**	1,101,354
Interest received	**1,691,394**	749,285
Dividend received	**6,952,659**	4,668,515
Income taxes paid	**(155,316)**	(113,521)
NET CASH (USED IN) FROM OPERATING ACTIVITIES	**(16,127,161)**	6,405,633
INVESTING ACTIVITIES		
Dividends received from associates	**–**	445,762
Repayment from associates	**–**	1,268,600
Repayment from long term callable deposits	**2,980,686**	–
Advance to associates	**(1,884)**	–
Repayment of capital from associates	**660,572**	740,453
Net proceeds from disposal of an associate	**–**	2,320,273
Proceeds from disposal of held-to-maturity financial assets	**2,040,611**	–
NET CASH FROM INVESTING ACTIVITIES	**5,679,985**	4,775,088
CASH FROM FINANCING ACTIVITY		
Proceeds from issue of ordinary shares	**29,167,200**	–
NET INCREASE IN CASH AND BANK BALANCES	**18,720,024**	11,180,721
CASH AND BANK BALANCES AS AT 1 JANUARY	**27,672,116**	17,354,211
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	**(704,808)**	(862,816)
CASH AND BANK BALANCES AS AT 31 DECEMBER	**45,687,332**	27,672,116

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 28 and 14 respectively.

The functional currency of the major 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 (NEW "HKFRS")

In the current year, the Group has applied, for the first time, the following new standards, amendments and interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), which are effective for the Group's financial year beginning 1 January 2007.

HKAS 1 (Amendment)	Capital disclosures
HKFRS 7	Financial instruments: Disclosures
HK(IFRIC) - INT 7	Applying the restatement approach under HKAS 29 Financial reporting in hyperinflationary economies
HK(IFRIC) - INT 8	Scope of HKFRS 2
HK(IFRIC) - INT 9	Reassessment of embedded derivatives
HK(IFRIC) - INT 10	Interim financial reporting and impairment

The application of the new HKFRSs had no material effect on how the results and financial position for the current or prior accounting years have been prepared and presented. Accordingly, no prior year adjustment has been required.

The Group has applied the disclosure requirements under HKAS 1 (Amendment) and HKFRS 7 retrospectively. Certain information presented in prior year under the requirements of HKAS 32 has been removed and the relevant comparative information based on the requirements of HKAS 1 (Amendment) and HKFRS 7 has been presented for the first time in the current year.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (NEW "HKFRS") *(continued)*

The Group and the Company have not early applied the following new and revised standards or interpretations that have been issued but are not yet effective.

HKAS 1 (Revised)	Presentation of financial statements[1]
HKAS 23 (Revised)	Borrowing costs[1]
HKAS 27 (Revised)	Consolidated and separate financial statements[5]
HKFRS 2 (Amendment)	Vesting conditions and cancellations[1]
HKFRS 3 (Revised)	Business combinations[5]
HKFRS 8	Operating segments[1]
HK(IFRIC) - INT 11	HKFRS 2: Group and treasury share transactions[2]
HK(IFRIC) - INT 12	Service concesion arrangements[3]
HK(IFRIC) - INT 13	Customer loyalty programmes[4]
HK(IFRIC) - INT 14	HKAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction[3]

1 Effective for annual periods beginning on or after 1 January 2009.
2 Effective for annual periods beginning on or after 1 March 2007.
3 Effective for annual periods beginning on or after 1 January 2008.
4 Effective for annual periods beginning on or after 1 July 2008.
5 Effective for annual periods beginning on or after 1 July 2009.

The Directors anticipate that the application of these standards or interpretations will have no material impact on the results and the financial position of the Group and the Company.

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.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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.

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 ("FVTPL"), 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.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period.

Income is recognised on an effective interest basis for debt instruments.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial assets *(continued)*
Financial assets at fair value through profit or loss
Financial assets at FVTPL of the Group represents those designated at FVTPL upon initial recognition.

A financial asset may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or

- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or

- it forms part of a contract containing one or more embedded derivatives, and HKAS 39 permits the entire combined contract (asset or liability) to be designated as at FVTPL.

At each balance sheet date subsequent to initial recognition, financial assets at FVTPL are measured at fair value, with changes in fair value recognised directly in profit or loss in the period in which they arise. The net gain or loss recognised in profit or loss excludes any dividend or interest earned on the financial assets.

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 long-term callable depositis, other receivables, and bank balances) are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment loss on financial assets below).

Held-to-maturity investments
Held-to-maturity investments 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. The Group designated the listed debt securities as held-to-maturity investments. At each balance sheet date subsequent to initial recognition, held-to-maturity investments are measured at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment loss on financial assets below).

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial assets *(continued)*

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated or not classified as financial assets at FVTPL, loans and receivables or held-to-maturity investments. Where the Group sells or reclassifies more than an insignificant amount of held-to-maturity investments before maturity, the remaining held-to-maturity investments are reclassified to available-for-sale investments.

At each balance sheet date subsequent to initial recognition, available-for-sale financial assets are measured at fair value. Changes in fair value are recognised in equity, until the financial asset is disposed of or is determined to be impaired, at which time, the cumulative gain or loss previously recognised in equity is removed from equity and recognised in profit or loss (see accounting policy on impairment loss on financial assets below).

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been impacted.

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For financial assets carried at amortised cost, an impairment loss is recognised in profit or loss 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.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets, with the exception of amount due from subsidiaries and associates, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When an amount due from a subsidiary or associates is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

For available-for-sale debt investments, impairment losses are subsequently reversed if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial liabilities and equity

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.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Interest expense is recognised on an effective interest basis.

Financial liabilities

Financial liabilities including trade and 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 consolidated 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 consolidated income statement.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable.

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.

For the revenue recognition principle on financial assets, please refer to "Financial Instruments" section in note 3.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment

At each balance sheet date, the Group reviews the carrying amounts of its 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. An impairment loss is recognised as an 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. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss 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. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the functional currencies of the relevant group entities are translated into the presentation currency of the Group (i.e. United States dollars) 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.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Taxation *(continued)*

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.

4. CAPITAL RISK MANAGEMENT

The Group and the Company manage its capital to ensure that entities in the Group and the Company will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The capital structure of the Group and the Company is equity attributable to shareholders of the Company, comprising issued capital, reserves and retained profits as disclosed in statement of changes in equity.

The Directors review the capital structure by considering the cost of capital and the risks associated with capital. In view of this, the Group will balance its overall capital structure through the new share issues as well as the issue of new debt. The Group's overall strategy remains unchanged throughout the year.

5. FINANCIAL INSTRUMENTS

Categories of financial instruments

	THE GROUP		THE COMPANY	
	2007	2006	**2007**	2006
	US$	US$	**US$**	US$
Financial assets				
Fair value through profit or loss				
Designated at fair value				
through profit or loss	**1,197,600,524**	266,160,877	**22,145,343**	17,725,455
Available-for-sale	**697,011**	–	**–**	–
Held-to-maturity	**–**	2,698,563	**–**	–
Loans and receivables				
(including cash and cash equivalents)	**45,786,640**	30,778,882	**85,160,134**	73,649,164
Financial liabilities				
Amortised cost	**110,098,943**	19,036,410	**112,447,820**	20,109,460

Financial risk management objective and policies

The Group's major financial instruments include financial assets at fair value through profit or loss, other investments in financial assets, other receivables, cash and bank balances and other payables. The Company's major financial instruments are the same as the Group, except it further includes amounts due from/to subsidiaries. Details of these financial instruments are disclosed in respective notes. Financial risks include market risk (including currency risk, interest rate risk and price risk), credit risk and liquidity risk. 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

Currency risk

The Group and the Company undertake certain transactions including amounts due from subsidiaries and cash and bank balances, denominated in the currency other than the functional currency of the relevant group entities, hence exposures to exchange rate fluctuations arise.

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

5. FINANCIAL INSTRUMENTS *(continued)*

Market risk *(continued)*

Currency risk (continued)

The carrying amount of the Group's and the Company's monetary assets and monetary liabilities which denominated in the currency other than the functional currency of the relevant group entities at the reporting date is as follows:

	THE GROUP	
	2007	2006
	US$	US$
Cash and bank balances	**6,869,159**	3,641,351

	THE COMPANY	
	2007	2006
	US$	US$
Cash and bank balances	**6,857,982**	3,637,443
Amounts due from subsidiaries	**42,478,991**	46,318,369

Foreign currency sensitivity

The Group and the Company are mainly exposed to the currencies of HKD and RMB which are not the functional currency of the relevant group entities. For the currency risk of the Group's and the Company's cash and bank balances, the exposure is mainly in HKD against USD, no sensitivity analysis is prepared as the management considered that the effect is insignificant under the linked exchange rate system.

For the currency risk of the Company's amounts due from subsidiaries, the exposure is mainly in RMB against USD, if the exchange rate of RMB against USD has been increased/decreased by 5%, the Company's profit for the year would increase/decrease by US$2,235,000 (2006: US$2,437,000).

The Company's sensitivity to foreign currency has decreased during the current year mainly due to the decrease in amounts due from subsidiaries, which are denominated in RMB.

Interest rate risk

The Group and the Company are 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 debt securities included in financial assets at fair value through profit or loss.

The Group is also exposed to fair value interest rate risk on certain debt securities (see note 16). The Group manages such interest rate exposure through the Investment Manager, and considers that there is no significant impact on the profit before taxation of the Group arising from the volatility of interest rates.

5. FINANCIAL INSTRUMENTS *(continued)*

Interest rate risk *(continued)*

Interest rate sensitivity

The sensitivity analyses below, which include interest rate exposure on variable interest bearing bank deposits and debt securities, have been determined based on the exposure to interest rates for both derivatives and non-derivative instruments at the balance sheet date. For variable-rate bank borrowings, the analysis is prepared assuming the amount of liability outstanding at the balance sheet date was outstanding for the whole year. A 100 basis point change is used which represents management's assessment of the possible change in interest rates.

At the reporting date, if interest rates had been 100 basis points higher/lower and all other variables were held constant, the Group's profit for the year would increase/decrease by US$455,099 (2006: US$151,739) and the Company's profit for the year would increase/decrease by US$334,883 (2006: US$104,749). This is mainly attributable to the interest earned from bank balances.

Equity price risk

The Group and the Company are exposed to equity securities price risk through its investments in non-circulating 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.

Equity price sensitivity

The sensitivity analyses below have been determined based on the exposure to equity price risks at the reporting date.

If the input of market bid prices of the non-circulating equity securities for the calculation of their fair values had been 10 percent higher/lower, the Group's profit for the year would increase/decrease by US$119,660,072 (2006: US$26,577,677). This is mainly attributable to the changes in fair values of the investments designated at fair value through profit or loss.

Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group and the Company.

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

The Group's and the Company's maximum exposure to credit risk in the event of the counterparties' failure to perform their obligations as at 31 December 2007 in relation to each class of recognised financial assets is the carrying amount of those assets stated in the consolidated and the Company's balance sheet, net of any allowances for losses.

Although the bank balances are concentrated on certain counterparties, the credit risk on liquid funds is limited because the counterparties are bank with good credit ratings assigned by international credit rating agencies. In this regards, the Directors consider that the Group's and the Company's credit risk of such authorised institutions is low.

5. FINANCIAL INSTRUMENTS *(continued)*

Liquidity risk

Liquidity risk is the risk that the Group and the Company are unable to meet its payment obligations associated with its financial liabilities when they fall due. The Group and the Company manage liquidity risk by maintaining adequate reserves, banking facilities by continuously monitoring forecast and actual cash flows.

Internally generated cash flow is the main source of funds to finance the operations of the Group and the Company. The Group's and the Company's liquidity risk management includes making available standby banking facilities and diversifying the funding sources. The Group and the Company regularly review the major funding positions to ensure adequate financial resources are available to meet their respective financial obligations.

The Company has entered into a revolving loan facility to the extent of US$20,000,000 with Hang Seng Bank Limited during the year. At 31 December 2007, the Group and the Company have available unutilised banking facilities of US$20,000,000 and no drawdown was made during the year.

The Group's and the Company's financial liabilities represent other payables (management and performance fee accruals) which are interest free and repayable on demand. In the opinion of the management, no maturity profile is required to be prepared by virtue of its nature.

Fair value of financial instruments

The fair value of financial assets designated at fair value through profit or loss and traded on active liquid markets are determined with reference to quoted market bid prices (see note 15).

The Directors consider that the carrying amount of financial assets and financial liabilities recorded in the consolidated financial statements and the Company's balance sheet approximates their fair values.

6. INVESTMENT INCOME

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

	THE GROUP	
	2007	2006
	US$	US$
Interest income	**1,716,488**	774,778
Dividend income	**6,952,659**	4,668,515
Total	**8,669,147**	5,443,293

7. 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 2007, analysed by geographical location of assets with reference to the operation of the investees were as follows:

For the year ended 31 December 2007

	Hong Kong US$	The PRC US$	Others US$	Consolidated US$
INVESTMENT INCOME				
Group investment income	1,206,149	7,312,192	150,806	8,669,147
RESULT				
Segment result	340,823	804,436,973	172,773	804,950,569
Other income				1,967,603
Unallocated corporate expenses				(681,888)
Share of results of associates	–	3,422,469	–	3,422,469
Profit before taxation				809,658,753
Taxation	63,600	214,927,120	–	(214,990,720)
Profit attributable to equity shareholders				594,668,033

BALANCE SHEET
At 31 December 2007

	Hong Kong US$	The PRC US$	Others US$	Consolidated US$
ASSETS				
Other receivables, Cash and bank balances	33,619,093	12,167,547	–	45,786,640
Interests in associates	–	17,898,812	–	17,898,812
Financial assets at fair value through profit or loss	42,307	1,196,589,217	969,000	1,197,600,524
Other investments in financial assets	–	–	697,011	697,011
Consolidated total assets	33,661,400	1,226,655,576	1,666,011	1,261,982,987
LIABILITIES				
Other payables	110,098,943	–	–	110,098,943
Taxation payable and deferred taxation	63,600	246,485,501	–	246,549,101
Consolidated total liabilities	110,162,543	246,485,501	–	356,648,044

7. SEGMENTAL INFORMATION *(continued)*

For the year ended 31 December 2006

	Hong Kong US$	The PRC US$	Others US$	Consolidated US$
INVESTMENT INCOME				
Group investment income	406,326	4,889,449	147,518	5,443,293
RESULT				
Segment result	512,016	134,909,295	147,518	135,568,829
Other income				1,434,878
Unallocated corporate expenses				(450,839)
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

BALANCE SHEET
At 31 December 2006

	Hong Kong US$	The PRC US$	Others US$	Consolidated US$
ASSETS				
Other receivables, Cash and bank balances	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				
Other payables	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

8. PROFIT BEFORE TAXATION

	THE GROUP	
	2007	2006
	US$	US$
Profit before taxation has been arrived at after charging (crediting):		
Auditor's remuneration	**84,871**	65,531
Net foreign exchange gain	**(1,952,980)**	(1,419,700)
Investment Manager's management fee	**16,828,839**	3,969,821
Investment Manager's performance fee	**104,240,057**	17,324,174
Directors' fees	**105,224**	32,166
Share of tax of associates (included in share of results of associates)	**708,213**	476,868

9. DIRECTORS' EMOLUMENTS

The Directors' fees paid or payable to each of the 15 (2006: 15) Directors were as follows:

	THE GROUP	
	2007	2006
	US$	US$
Executive Directors:		
Dr. FU Yuning	**15,396**	5,148
Dr. HUANG Dazhan***	**3,857**	2,573
Mr. HONG Xiaoyuan*	**6,409**	N/A
Mr. CHU Lap Lik, Victor	**10,266**	2,573
Mr. XIE Kuixing****	**10,266**	2,573
Mr. TSE Yue Kit	**10,266**	2,573
Ms. ZHOU Linda Lei**	**N/A**	N/A
Ms. KAN Ka Yee, Elizabeth *(Alternate Director)*	**–**	–
	56,460	15,440
Non-executive Directors:		
Mr. WANG Xingdong****	**11,547**	3,860
Mr. GONG Jianzhong***	**3,857**	2,573
Mr. PHOON Siew Heng#	**N/A**	–
Mr. TAN Cheong Hin *(Alternate Director)*#	**N/A**	–
	15,404	6,433

9. DIRECTORS' EMOLUMENTS *(continued)*

	THE GROUP	
	2007	2006
	US$	US$
Independent Non-executive Directors:		
Dr. The Hon. David LI Kwok-po	**11,547**	3,860
Mr. KUT Ying Hay	**11,547**	3,860
Dr. POON Kwok Lim, Steven***	**3,857**	2,573
Mr. WANG Jincheng*	**6,409**	N/A
Mr. LI Kai Cheong, Samson *(Alternate Director)*	**–**	–
Mr. MOK Hay Hoi *(Alternate Director)****	**–**	–
	33,360	10,293
Total	**105,224**	32,166

The Directors resigned during the year 2006.

* The Directors were appointed during the year 2007.

** The Director was appointed during the year 2008.

*** The Directors resigned during the year 2007.

**** The Directors resigned during the year 2008.

10. EMPLOYEES' EMOLUMENTS

The five highest paid individuals in the Group in 2007 and 2006 were all Directors of the Company and details of their emoluments are included in note 9 above.

11. TAXATION

The profits tax charge for the year comprises:

	THE GROUP	
	2007	2006
	US$	US$
The Company and its subsidiaries		
Current tax:		
Hong Kong	**63,600**	–
Other regions in the PRC	**203,741**	98,516
	267,341	98,516
Overprovision in prior years		
Hong Kong	**–**	(774)
	267,341	97,742
Deferred taxation *(Note 21)*		
Current year	**196,792,303**	22,241,084
Attributable to a change in tax rate in opening balance	**17,931,076**	–
Total	**214,990,720**	22,338,826

11. TAXATION *(continued)*

Hong Kong profits tax is calculated at 17.5% (2006: 17.5%) on the estimated assessable profits. Taxation arising in other regions in the PRC is calculated at the rates prevailing in the relevant regions.

On 16 March 2007, the PRC promulgated the Law of the People's Republic of China on Enterprise Income Tax (the "New Law") by Order No. 63 of the President of the PRC. On 6 December 2007, the State Council of the PRC issued Implementation Regulations of the New Law. The New Law and Implementation Regulations will change the tax rate from 15% to 25% gradually from 2008 to 2012 for the PRC subsidiaries effective on 1 January 2008. The deferred tax balance has been adjusted accordingly to reflect the change of tax rates from 15% to 25% that are expected to apply to the respective periods when the asset is realised.

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

	2007	2006
	US$	US$
Profit before taxation	**809,658,753**	137,756,101
Share of results of associates	**(3,422,469)**	(1,203,233)
Profit before taxation attributable to the Company and its subsidiaries	**806,236,284**	136,552,868
Tax at the domestic income tax rate of 15% *(Note)*	**120,935,442**	20,482,931
Tax effect of expenses not deductible for tax purpose	**20,746,101**	3,242,014
Tax effect of income not taxable for tax purpose	**(1,562,221)**	(1,153,168)
Tax effect of tax losses/deductible temporary differences not recognised	**10,496**	1,915
Utilisation of tax losses previously not recognised	**(293,219)**	(161,513)
Effect of different tax rates of subsidiaries operating in other regions in the PRC	**(437,469)**	(72,579)
Overprovision in prior years	**–**	(774)
Increase in opening deferred tax liability resulting from an increase in applicable tax rate	**17,931,076**	–
Increase in current year deferred tax liability resulting from an increase in applicable tax rate	**57,660,514**	–
Profit tax charge	**214,990,720**	22,338,826

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.

12. BASIC EARNINGS PER SHARE

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

	THE GROUP	
	2007	2006
	US$	US$
Earnings for the purpose of basic earnings per share (US$)	**594,668,033**	115,417,275
Weighted average of number of ordinary shares for the purpose of basic earnings per share	**147,145,600**	137,145,600

13. INVESTMENTS IN SUBSIDIARIES

	THE COMPANY	
	2007	2006
	US$	US$
Unlisted shares, at cost	**10,000,007**	10,000,006

The Group has incorporated two investment holding companies, Main Star Investment Limited and Goshing Investment Limited, during the year.

Particulars of the Company's subsidiaries at 31 December 2007 are set out in note 28.

14. INTERESTS IN ASSOCIATES

	THE GROUP	
	2007	2006
	US$	US$
Cost of unlisted investments in associates	**17,933,682**	14,499,075
Share of post-acquisition results, net of dividends received	**(906,529)**	(1,507,066)
Share of exchange reserve	**869,775**	991,886
	17,896,928	13,983,895
Amounts due from associates	**6,547,879**	6,545,995
Allowance on amounts due from associates	**(6,545,995)**	(6,545,995)
	1,884	–
Total	**17,898,812**	13,983,895

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

14. INTERESTS IN ASSOCIATES *(continued)*

As at 31 December 2006 and 2007, 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%
Shandong Jinbao Electronics Company Limited (Formerly known as, Zhaoyuan Jinbao Electronics Company Limited)	PRC/PRC	Registered capital	Manufacturing electronics products	30%
Langfang Oriential 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:

	2007 US$	2006 US$
Total assets	**339,754,721**	254,897,276
Total liabilities	**(270,537,110)**	(204,302,663)
Net assets	**69,217,611**	50,594,613
Group's share of net assets of associates	**17,898,812**	13,983,895
Turnover	**188,043,508**	154,212,732
Profit for the year	**13,002,703**	8,309,222
Group's share of results of associates for the year (excluding unrecognised share of profits of associates for current year with accumulated losses in prior years)	**3,422,469**	1,203,233

14. INTERESTS IN ASSOCIATES *(continued)*

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

	2007	2006
	US$	US$
Unrecognised share of profits for the year	**(377,243)**	(168,769)
Accumulated unrecognised share of losses of associates	**3,424,518**	3,801,761

15. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	THE GROUP	
	2007	2006
	US$	US$
Equity securities:		
– listed in Hong Kong *(note a)*	**–**	1,395,118
– listed elsewhere *(note a)*	**–**	297,880
– non-circulating *(note b)*	**1,167,500,317**	181,449,790
– unlisted *(note c)*	**29,131,207**	82,049,089
	1,196,631,524	265,191,877
Debt securities:		
– unlisted *(note d)*	**969,000**	969,000
Total	**1,197,600,524**	266,160,877
Analysed to reporting purposes as		
Current assets	**560,168,661**	–
Non-current assets	**637,431,863**	266,160,877
Total	**1,197,600,524**	266,160,877

	THE COMPANY	
	2007	2006
	US$	US$
Equity securities:		
– unlisted *(note c)*	**22,145,343**	17,725,455

15. 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") and Industrial Bank Company, Limited ("IBCL"). The fair value of the investment is estimated by reference to the market prices of CMB's and IBCL'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 unlisted investment portfolio which exceed 10% of the assets of the Group at 31 December 2007 disclosed pursuant to Section 129(2) of the Companies Ordinance are as follows:

Name of company	Place of registration	Class of share capital	**2007** Percentage of equity held by the Group	2006 Percentage of equity held by the Group
China Merchants Bank Company, Limited	PRC	Equity	**0.83%**	0.83%
Industrial Bank Company, Limited	PRC	Equity	**1.68%**	2.10%

16. OTHER INVESTMENTS IN FINANCIAL ASSETS

	THE GROUP	
	2007	2006
	US$	US$
Listed debt securities – available-for-sale financial assets *(note a)*	**697,011**	–
Listed debt securities – held-to-maturity financial assets *(note a)*	**–**	2,698,563
Loans and receivables – long term callable deposits *(note b)*	**–**	3,000,000
Total	**697,011**	5,698,563

16. OTHER INVESTMENTS IN FINANCIAL ASSETS *(continued)*

Notes:

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

	THE GROUP	
	2007	2006
	US$	US$
Over one year but less than five years	**–**	998,909
Over five years	**697,011**	1,699,654
Total	**697,011**	2,698,563

(b) The long term callable deposits carry fixed interest rates and have maturity dates on 9 December 2008 and 16 March 2009, respectively. During the year, the long term callable deposits had been fully called by issuers.

17. AMOUNTS DUE FROM (TO) SUBSIDIARIES

	THE COMPANY	
	2007	2006
	US$	US$
Amounts due from subsidiaries	**62,466,282**	73,927,275
Less: Allowance on amounts due from subsidiaries	**(10,882,392)**	(10,882,392)
Total	**51,583,890**	63,044,883
Analysis of amounts due from subsidiaries		
Current	**42,694,947**	53,496,742
Non-current	**8,888,943**	9,548,141
Total	**51,583,890**	63,044,883
Amount due to a subsidiary	**(2,349,289)**	(1,073,393)

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

	THE COMPANY	
	2007	2006
	US$	US$
Movement in the allowance account		
Balance at beginning of the year	**10,882,392**	10,929,392
Reversal of allowance during the year	**–**	(47,000)
Balance at end of the year	**10,882,392**	10,882,392

17. AMOUNTS DUE FROM (TO) SUBSIDIARIES *(continued)*

The amounts due from subsidiaries are neither past due nor impaired as they have the repayment ability to settle the outstanding amounts while the Group has fully provided for the impaired amounts due from subsidiaries.

18. OTHER RECEIVABLES

	THE GROUP	
	2007	2006
	US$	US$
Interest receivable	**74,769**	83,450
Other receivables	**24,539**	23,316
Total	**99,308**	106,766

	THE COMPANY	
	2007	2006
	US$	US$
Interest receivable	**14,279**	7,619
Other receivables	**21,138**	20,999
Total	**35,417**	28,618

19. CASH AND BANK BALANCES

THE GROUP AND THE COMPANY

Bank balances comprise short-term bank deposits at prevailing market interest rates.

20. OTHER PAYABLES

THE GROUP AND THE COMPANY

Other payables mainly comprise amount due to the Investment Manager.

21. 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	
	2007	2006
	US$	US$
Balance at 1 January	**31,662,164**	9,421,080
Charge to consolidated income statement for the year	**196,792,303**	22,241,084
Attributable to a change in tax rate in opening balance	**17,931,076**	–
Balance at 31 December	**246,385,543**	31,662,164

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$4,840,790 (2006: US$5,856,387) and US$82,733 (2006: US$1,967,554) 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.

THE COMPANY

The Company'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 Company and movements thereon during the current and prior years:

	THE COMPANY	
	2007	2006
	US$	US$
Balance at 1 January	**242,672**	–
Charge to income statement for the year	**441,989**	242,672
Balance at 31 December	**684,661**	242,672

At the balance sheet date, the Company had estimated unused tax losses available for offsetting against future taxable profits of US$82,733 (2006: US$12,763). The losses can be carried forward indefinitely.

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

22. SHARE CAPITAL

	Number of shares	US$
Ordinary shares of US$0.10 each		
Authorised:		
At 1 January 2006, 31 December 2006 and 1 January 2007	**150,000,000**	**15,000,000**
Increase during the year	**150,000,000**	**15,000,000**
At 31 December 2007	**300,000,000**	**30,000,000**
Issued and fully paid:		
At 1 January 2006, 31 December 2006 and 1 January 2007	**137,145,600**	**13,714,560**
Issue of ordinary shares	**12,000,000**	**1,200,000**
At 31 December 2007	**149,145,600**	**14,914,560**

The Company issued 12,000,000 new shares on 6 February 2007 at subscription price of HK$18.9 per share and increased its authorised share capital from 150,000,000 shares to 300,000,000 shares following the approval of the shareholders' meeting on 25 May 2007. The intended use of proceeds is for general working capital and/or possible investment in the future.

23. RESERVES

	THE COMPANY		
	Share premium US$	Accumulated loss US$	Total US$
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 1 January 2007	**81,525,984**	**(14,217,933)**	**67,308,051**
Loss for the year	**–**	**(106,016,808)**	**(106,016,808)**
Issue of ordinary shares	**27,967,200**	**–**	**27,967,200**
Balance at 31 December 2007	**109,493,184**	**(120,234,741)**	**10,741,557**

24. NET ASSET VALUE PER SHARE

The calculation of the net asset value per share is based on the net assets of US$905,334,943 (2006: US$262,872,110) and 149,145,600 ordinary shares (2006: 137,145,600 ordinary shares) of US$0.10 each in issue.

25. 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:

	2007	2006
	US$	US$
Within one year	**7,560**	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.

26. EVENT AFTER BALANCE SHEET DATE

The Company and other strategic investors have entered into the subscription agreements for the purchase of 11 percent preferred equity in the National Basketball Association's newly formed entity, NBA China, L.P. on 10 January 2008 via an investment company, Goshing Investment Limited. Out of 11 percent preferred equity, the Company has invested US$23 million in return for 1 percent preferred equity of NBA China, L.P. or equivalent to 23 Participating Preferred Units.

27. 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$16,828,839 (2006: US$3,969,821) and performance fee totalling US$104,240,057 (2006: US$17,324,174) 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 2007 was US$109,925,509 (2006: US$18,933,294).

Amount due to the Investment Manager is unsecured, interest free and is repayable on demand.

(b) During the year, rental fees in respect of the office properties totalling US$14,433 (2006: US$6,558) were paid or payable to a wholly-owned subsidiary of a substantial shareholder of the Company.

(c) Details of compensation of the Directors are set out in note 9.

28. PARTICULARS OF SUBSIDIARIES

Particulars of subsidiaries at 31 December 2007, 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)
Goshing Investment Limited (incorporated on 24 October 2007)	BVI/PRC	Investment holding	1 share of US$1 each (Limited liability company)
Main Star Investment Limited (incorporated on 31 January 2007)	HK/HK	Investment holding	1 share of HK$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 2007 or at any time during the year.

29. KEY SOURCE OF ESTIMATION UNCERTAINTY

The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date that have a significant risk of causing a material adjustment to the carrying amounts of assets within the next financial year as follows:

Fair value of financial assets at fair value through profit or loss
As described in note 15, for the investments in non-circulating equity securities, the Group selects Black Scholes Option Pricing model to determine the lack of marketability factor on the estimated fair value of such investments.

Financial Summary

CONSOLIDATED RESULTS

	For the year ended 31 December				
	2003 US$	2004 US$ (restated)	2005 US$	2006 US$	**2007 US$**
Investment income	2,906,501	2,670,343	3,118,649	5,443,293	**8,669,147**
Profit from operations after finance costs	13,748,045	433,886	11,152,435	136,552,868	**806,236,284**
Share of results of associates	261,272	785,508	(1,301,764)	1,203,233	**3,442,469**
Taxation	(1,920,493)	(116,917)	(2,020,645)	(22,338,826)	**(214,990,720)**
Profit attributable to equity shareholders	12,088,824	1,102,477	7,830,026	115,417,275	**594,668,033**

CONSOLIDATED ASSETS AND LIABILITIES

	As at 31 December				
	2003 US$	2004 US$	2005 US$	2006 US$	**2007 US$**
Total assets	146,920,961	147,415,428	157,459,741	313,622,217	**1,261,982,987**
Total liabilities	(8,067,076)	(8,384,890)	(10,788,779)	(50,750,107)	**(356,648,044)**
Shareholders' funds	138,853,885	139,030,538	146,670,962	262,872,110	**905,334,943**