China Merchants China Direct Investments Limited

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

Annual Report 2008


373.60
464.45
373.85
464.26
100
50
伍拾圆

CONTENTS

Corporate Information

BOARD OF DIRECTORS

Executive Directors:

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

Independent Non-executive Directors:

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

* members of Investment Committee

AUDIT COMMITTEE

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

INVESTMENT MANAGER

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

PRINCIPAL BANKERS

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

COMPANY SECRETARY

Mr. Peter Y. W. Lee

AUDITOR

Deloitte Touche Tohmatsu

LEGAL ADVISERS

Linklaters
Victor Chu & Co

SHARE REGISTRAR

Computershare Hong Kong Investor Services Limited
46th Floor, Hopewell Centre,
183 Queen's Road East,
Hong Kong

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

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

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

Mr. LI Yinquan

Chairman

Chairman's Statement

The Board of Directors (the "Board") announces that the audited consolidated net asset value of China Merchants China Direct Investments Limited (the "Company") and its subsidiaries (together, the "Group"), as of 31 December 2008, amounted to US$334,407,214. The net asset value per share was US$2.242 a decrease of 63% as compared to US$6.07 in 2007. The Group's audited consolidated loss for 2008 was US$620.28 million, while its audited consolidated profit after taxation for 2007 was US$594.67 million.

As a result of the U.S. sub-prime mortgage crisis and the resulting global financial crisis, China's macroeconomic development first went up and then down, and slowed at an increasing rate each quarter in 2008. According to a preliminary report of the National Bureau of Statistics of China, China's gross domestic product (GDP) for 2008 recorded an increase of 9% over the prior year, representing a significant drop of 4% in growth rate as compared to the growth rate for 2007 of 13% and marking the first year with single-digit growth since 2003. Both of the growth of industrial production and corporate profits slowed. Prices increased first sharply and then more moderately, and remained stable in the second half of the year. The consumer price index (CPI) for the year increased by 5.9%, representing growth of 1.1% above that of last year. The growth of imports and exports fell substantially in the fourth quarter, but remained balanced and relatively strong for the whole year. China's securities markets saw a dramatic drop in 2008, and the SSE Composite Index recorded a decrease of 65.4% for the year. Prices of A shares of the two listed banks held by the Group also dropped substantially as general market conditions worsened, causing a materially adverse effect on the Group's operating results for 2008. Similarly, other financial services assets held by the Group were affected by the decrease in the domestic securities market, which further affected the Group's performance.

As of the end of 2008, the Group's total holdings in direct investment projects amounted to US$423.23 million, representing a decrease of US$791.30 million as compared to the end of 2007, and accounted for 80.31% of the Group's total asset value. The decrease was mainly attributed to the substantial decrease in the value of and the gradual realisation of the Group's banking projects. Investment in bonds amounted to US$0.70 million, and accounted for 0.14% of the total asset value. Cash on hand was US$101.99 million, and accounted for 19.35% of the total asset value. In response to the global financial crisis and the increasing risk of a global recession, the Group had no investment in trade equities as of the end of 2008.

In order to diversify its investments and benefit from China's policies to stimulate domestic demand, the Group contributed US$23 million to acquire preferred equity in NBA China, L.P. in January 2008, the investors of which include a number of internationally known investment institutions. The project involves conducting various commercial development activities with sports themes in the Greater China Region under the NBA brand, and is currently making steady progress.

In 2008, the Group obtained shareholders' mandates and disposed of a portion of its holdings of A shares of both Industrial Bank Co., Ltd. ("INDB") and China Merchants Bank Co., Ltd. ("CMB"). For the best interest and benefits of the shareholders and the Company as a whole, the Group will continue to dispose of A shares of both INDB and CMB, as this direction will increase the Group's working capital, increase the Group's ability to seize investment opportunities, and provide shareholders with a return on investment. In April 2008, the Group disposed of its entire holding of 0.28% of equity interest in China Merchants Securities Co., Ltd. and received a satisfactory internal rate of return of 42%.

Looking forward, we will face both challenges and opportunities in 2009. On the one hand, the impact of the global financial crisis will further spread and deepen, and the global economy may go into recession. Also, China will experience greater challenges with exports, along with slowing demand. Despite the fact that the Central Government has introduced a series of effective policies and measures to stimulate economic development, it is still not certain whether China's economy will continue growing at a relatively fast pace. On the other hand, the adjustment of economic structures and the substantial drop in asset prices as a result of the financial crisis, will provide the Group with more investment opportunities. The Investment Manager will combat these challenges and strive to identify new investment opportunities to increase shareholders' return, as always.

Lastly, on behalf of the Board, I would like to offer my heartfelt gratitude to former Chairman Dr. Fu Yuning, the members of the Audit Committee and Investment Committee, and the entire staff of the Investment Manager for their contributions and dedicated effort, 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.

Mr. LI Yinquan
Chairman

Hong Kong, 7 April 2009

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 loss attributable to equity shareholders of US$620.28 million for the year ended 31 December 2008, as compared to a profit attributable to equity shareholders for 2007 of US$594.67 million. This performance was attributable to a significant decrease in fair value of financial assets designated at fair value through profit or loss (the "financial assets"). As of 31 December 2008, the net assets of the Fund were US$334.41 million (31 December 2007: US$905.33 million), with a net asset value per share of US$2.242 (31 December 2007: US$6.07).

For the year 2008, loss on change in fair value of the financial assets was US$783.31 million (gain on change in fair value of the financial assets for 2007: US$917.35 million). The significant change in the fair value was attributed to the fact that the Fund's investments in both CMB and INDB recorded a loss on change in fair value and with a decrease of US$400.01 million and US$421.74 million, respectively, compared to the end of 2007.

Total investment income for the year increased by 47.28% to US$12.77 million (2007: US$8.67 million). This was mainly due to a significant increase in dividend income from CMB, INDB and CCT.

MATERIAL ACQUISITIONS AND DISPOSALS OF INVESTMENTS

The Fund has stepped up its efforts in the search for investment opportunities, and intensive due diligence was completed on projects in financial services, culture and media, energy, environmental protection and consumer related industries. The Fund entered into an agreement with the National Basketball Association of the United States (NBA) on 10 January 2008 and invested US$23 million in NBA China, representing a 1% preferred equity stake in the project.

The Fund held an extraordinary general meeting on 16 January 2008, and at the meeting a mandate was issued to the Fund. Under the mandate, the Fund could dispose of its entire holding of A shares of INDB within one year, at a price no less than RMB28 per share. The Fund held another extraordinary general meeting on 15 December 2008, and at the meeting two separate mandates were issued to the Fund. Under the mandates, the Fund can dispose of its entire holding of A shares of both CMB and INDB within one year, at prices of no less than RMB4.62 per share and no less than RMB7.78 per share, respectively. During the reporting period, the Fund disposed of 5.945 million A shares of CMB and 19.20 million A shares of INDB in total, and the aggregate net proceeds amounted to RMB472.90 million.

On 30 April 2008, the Fund entered into a share transfer agreement with an independent third party for the sale of its 0.28% equity interest in China Merchants Securities Co., Ltd. ("CMS") at a consideration of RMB140.30 million, which was confirmed to be reasonable by an independent assessment. The transaction was completed in May 2008 and our internal rate of return from the investment was 42%.

LIQUIDITY, FINANCIAL RESOURCES, GEARING AND CAPITAL COMMITMENTS

The Fund's cash on hand increased by 123%, from US$45.69 million as of the end of 2007 to US$101.99 million as of 31 December 2008, mainly due to the cash received from disposition of certain A shares of CMB, certain A shares of INDB and its entire holding in CMS, in excess of its investment in NBA China.

As of 31 December 2008, the Fund had no outstanding bank loans (2007: Nil) nor capital commitments (2007: Nil).

EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES AND RELATED HEDGES

Most of the Fund's investments are located in China where the official currency is the Renminbi ("RMB"). The conversion rate of RMB against U.S. dollar recorded an increase of 6.4% in 2008, which had a positive impact on the Fund since it holds considerable amount of assets denominated in RMB.

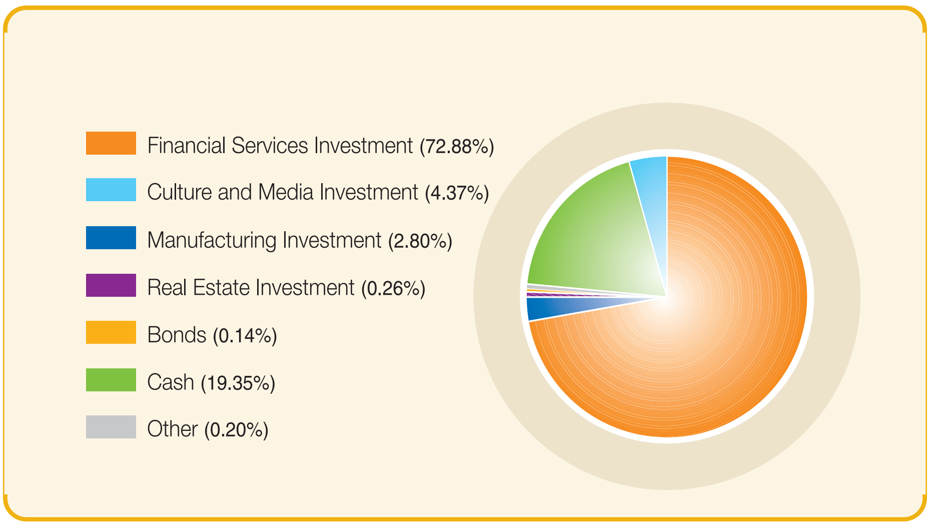
EMPLOYEES

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

THE PORTFOLIO

As of 31 December 2008, the Fund had total investments of US$423.93 million - US$423.23 million in direct investments and US$0.70 million in bonds. The major direct investment projects were in financial services of US$384.06 million (72.88% of total assets), culture and media of US$23.05 million (4.37%), manufacturing of US$14.78 million (2.80%), and real estate of US$1.30 million (0.26%). In addition, the Fund had cash on hand of US$101.99 million, accounting for 19.35% of the Fund's total assets as of 31 December 2008.

TOTAL ASSETS DISTRIBUTION (AS AT 31 DECEMBER 2008)



Ms. ZHOU Linda Lei

Managing Director of the Investment Manager

REVIEW OF DIRECT INVESTMENTS

The following table shows the major direct investment projects held by the Fund as at 31 December 2008:

Name of projects	Location	Business nature	Net book value (US$ million)	Percentage of total assets
Financial Services:				
1. China Merchants Bank Co., Ltd.	Shenzhen, Guangdong	Banking	207	39.34
2. Industrial Bank Co., Ltd.	Fuzhou, Fujian	Banking	138	26.27
3. China Credit Trust Co., Ltd.	Beijing	Trust management	34	6.51
4. Industrial Securities Co., Ltd.	Fuzhou, Fujian	Securities	3	0.51
5. Morgan Stanley Huaxin Fund Management Co., Ltd.	Shenzhen, Guangdong	Fund management	2	0.25
		Sub-total:	384	72.88
Culture and Media:				
6. NBA China, L.P.	Beijing	Sports marketing	23	4.37
		Sub-total:	23	4.37
Manufacturing:				
7. Shandong Jinbao Electronics Co., Ltd.	Zhaoyuan, Shandong	Copper foil & laminates	15	2.80
		Sub-total:	15	2.80
Real Estate:				
8. Langfang Oriental Education Facilities Development Co., Ltd.	Langfang, Hebei	Student dormitory	1	0.26
9. Shenzhen Mankam Square	Shenzhen, Guangdong	Retail shops	—	—
10. China Merchants Plaza (Shanghai) Property Co., Ltd.	Shanghai	Office & commercial	—	—
		Sub-total:	1	0.26
Other:				
11. Shenzhen Jutian Investment Co., Ltd.	Shenzhen, Guangdong	Investment	—	—
		Sub-total:	—	—
		Total:	423	80.31

China Merchants Bank Co., Ltd. ("CMB"), is the first joint-stock commercial bank to be established in the PRC, and its shares have been listed on the Shanghai Stock Exchange since 2002. CMB now has over 570 branches and offices across the country. As of the balance sheet date, the Fund held 116.62 million A shares of CMB, representing 0.79% of equity interest in CMB, with an investment cost of RMB 112 million (approximately US$13.38 million). The net book value of the Fund's shareholding in CMB was US$207.32 million. In 2008, the Fund received cash dividends of RMB34.32 million for 2007 from CMB.

The lock-up period for the A shares of CMB held by the Fund has expired in February 2008.

The Fund held an extraordinary general meeting on 15 December 2008, and at the meeting a mandate was issued. Under the mandate, the Fund can dispose of its entire holding in A shares of CMB within one year, at a price no less than RMB4.62 per share. Up to the end of 2008, the Fund disposed of 5.945 million A shares of CMB in total, and the net proceeds amounted to RMB89.42 million.

As part of its strategy of internationalisation, CMB managed to privatise Wing Lung Bank, Limited ("WLB") by completing an acquisition in September 2008 of 53.12% of equity interests in WLB for a consideration of HK$19.3 billion in total (representing HK$156.5 per share), and through a subsequent unconditional mandatory cash offer (with cash involved of HK$17.04 billion). The listing of shares of WLB was withdrawn on 16 January 2009. Moreover, after preparations of more than one year, the New York Branch of CMB officially commenced operations on 18 October 2008.

Industrial Bank Co., Ltd. ("INDB") is a joint-stock commercial bank incorporated in the PRC. It has over 390 branches and offices across the country. As of the balance sheet date, the Fund held 64.80 million A shares of INDB, representing 1.30% of equity interest in INDB, with an investment cost of RMB112 million (approximately US$13.58 million). The net book value of the Fund's shareholding in INDB was US$138.43 million. The unaudited net profit of INDB for 2008 amounted to RMB11.36 billion, an increase of 32% over the same period last year. In 2008, the Fund received cash dividends of RMB26.53 million for 2007 from INDB.

The lock-up period for the A shares of INDB held by the Fund expired in February 2008.

Subsequent to the mandate issued by shareholders on 16 January 2008, the Fund disposed of 4.20 million A shares of INDB, and the net proceeds amounted to RMB149.62 million. The Fund held another extraordinary general meeting on 15 December 2008, and at the meeting a mandate was issued. Under the mandate, the Fund can dispose of its entire shareholding in A shares of INDB within one year, at a price of no less than RMB7.78 per share. Up to the end of 2008, the Fund disposed of an additional 15 million A shares of INDB, and the net proceeds amounted to RMB233.85 million. During the reporting period, the Fund disposed of 19.20 million A shares of INDB in total, and the aggregate net proceeds amounted to RMB383.47 million.

In March 2008, as approved by the board of INDB, INDB proposed to establish a wholly-owned finance leasing company with an investment of RMB2 billion, as well as a joint venture fund management company in partnership with Natixis Global Asset Management SA and Xiamen C&D Inc. The joint venture fund management company will have registered capital of RMB300 million, of which INDB will contribute 57%.

In June 2008, INDB signed a strategic cooperative agreement with Jiujiang City Commercial Bank to acquire a 20% interest in the bank at a price not exceeding 1.93 times of the bank's net assets per share at the end of 2007. The transaction has been completed.

In December 2008, INDB received approval from its board of directors to issue junior bonds of up to RMB18 billion on the inter-bank market to add to its supplementary capital. This proposal will be presented at shareholders meeting, with a request to authorise the management team to execute the transaction.

China Credit Trust Co., Ltd. ("CCT"), was established in 1995. The principal activities of CCT are trust management, fund management, investments and loan financing. The Fund invested US$15.31 million in CCT in 2005, and holds a 6.8167% stake. In 2008, the Fund received a cash dividend of US$2.5 million for 2007 from CCT.

CCT recorded an unaudited net profit (before its share of results of its associated companies under the equity method) of RMB373 million for the year 2008, representing a decrease of 22% from the same period of the previous year. The decrease was mainly due to a significant decrease of 67% in investment income compared to the same period of the previous year, as a result of the decline in the China's stock market in 2008. The unaudited net fees and commission income amounted to RMB436 million for the year 2008, representing an increase of 60% over the same period of the previous year. The increase in fees income was mainly driven by trust products relating to securities investments and real estate loans.

In June 2008, CCT obtained approval from the China Insurance Regulatory Commission to acquire a stake of 1.8% in China Life Pension Insurance Co., Ltd.

In November 2008, CCT held a shareholders meeting at which a resolution was passed to approve the transfer of a 32.35% equity interest in CCT held by the State Council of the PRC to The People's Insurance Company (Group) of China. At present, it is in the process of completing the relevant approvals and change of business registration in connection with this transfer. Upon completion of this transfer, The People's Insurance Company (Group) of China will become the single largest shareholder of CCT.

At the beginning of 2009, the China Banking Regulatory Commission approved the plan to establish a money brokerage company by CCT in China. CCT plans to establish a joint venture money brokerage company with a leading overseas money broker. CCT will invest RMB33.5 million in the company, representing 67% of the joint venture's registered capital. Such establishment of a joint venture company is still subject to the completion of other relevant approval procedures.

Industrial Securities Co., Ltd. ("ISCL") is a comprehensive securities company incorporated 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. Weakness in the China's stock market and a significant decrease in trading volume in 2008 had an adverse effect on the operating results of ISCL. ISCL recorded an unaudited net profit of RMB266 million for the year of 2008, representing a decrease of 87% from the same period of 2007.

During 2008, ISCL was classified as a Type A securities company with an "A" rating by the China Securities Regulatory Commission ("CSRC"), which represented an affirmation by the regulatory authority of ISCL's ability to manage risks and entitled ISCL to apply to conduct new business thereby broadening its business ventures.

ISCL passed a profit distribution proposal at the 2007 shareholders meeting for the distribution of 3 bonus shares for every 10 shares issued. The proposal has obtained approval from the CSRC, and the relevant change of business registration was completed in February 2009. As a result, the registered capital of ISCL increased from RMB1.49 billion to RMB1.937 billion. The number of shares in ISCL held by the Fund increased from 6.72 million to 8.736 million and the equity interest in ISCL held by the Fund remains the same at 0.45%.

Morgan Stanley Huaxin Fund Management Co., Ltd. ("Morgan Stanley Fund"), formerly known as Jutian Fund Management Co., Ltd., was established in 2003 with registered capital of RMB100 million. The Fund invested RMB10 million (equivalent to US$1.21 million) in 2003, and holds a 10% equity interest in Morgan Stanley Fund. Morgan Stanley International Holdings Inc. and China Fortune Securities Co., Ltd. acquired certain stakes in the former Jutian Fund Management Co., Ltd. and the related approvals and change of business registration were completed in June 2008. The former Jutian Fund Management Co., Ltd. was formally renamed as Morgan Stanley Huaxin Fund Management Co., Ltd. at the same time.

Morgan Stanley Fund recorded an audited net loss of RMB21.07 million for the year 2008, compared to a net profit of RMB31.96 million for the same period of the previous year. This change was mainly attributable to the considerable investment gains recorded in 2007, compared to a loss arising from changes in fair value of RMB11.01 million this year. In 2008, the Fund received a cash dividend of RMB1 million for 2007 from Morgan Stanley Fund.

The SSE Composite Index fell 65.4% in 2008 and assets under management of domestic fund management companies generally experienced a visible decline due to the devaluation of securities and a significant volume of redemptions by investors. Assets under management by Morgan Stanley Fund decreased to RMB1.66 billion at the end of December 2008 from RMB4.13 billion at the end of December 2007, which resulted in lower management fee income.

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

Since its inception, NBA China has actively developed a variety of businesses and has established cooperative relationships with many large enterprises such as Toyota, Peak, Mengniu, OPPO and Tsingtao Beer. In July 2008, the first two franchised NBA specialty shops in China opened in Beijing.

In October 2008, NBA China and AEG Group announced the establishment of a joint venture with each holding a 50% equity interest, and with each participating in the design, marketing and operation of multi-purpose NBA-style sports and entertainment arenas. Its objective is to seek partners in various places to build no fewer than 12 multi-purpose NBA-style sports and entertainment arenas in major cities around the PRC. NBA China has announced its commercial cooperation with the Shanghai World Expo Performing Arts Centre and Guangzhou International Sports Performing Arts Centre, which are under construction.

Shandong Jinbao Electronics Co., Ltd. ("Jinbao") was established in Zhaoyuan City of Shandong Province in 1993 and engages in the production and sale of copper-foil and laminate. The Fund's cumulative investment is US$7.85 million, representing an interest of 30% in Jinbao. For the year ended 31 December 2008, Jinbao recorded audited revenue of RMB1.31 billion, representing a decrease of 2.4% from the previous year. For the year ended 31 December 2008, Jinbao sustained an audited loss of RMB63.94 million, compared to a net profit of RMB76.86 million of the previous year. The sizable loss incurred by Jinbao was mainly due to a significant impairment of its inventory as a result of a decrease in the market price of electrolytic copper, its major raw material, and a slump in the selling price of its products as a result of the global financial crisis.

Jinbao submitted its updated listing application to the CSRC on 29 August 2008. However, the loss incurred by Jinbao in 2008 will have a material adverse effect on its listing application.

Langfang Oriental Education Facilities Development Co., Ltd. ("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 contract term. In June 2002, the Fund invested US$5 million for an equity interest of 25%.

In March 2008, Raffles Education Corp. of Singapore duly completed a transfer of assets for the acquisition of Oriental University City Development Co., Ltd.（東方大學城開發有限公司）, the then controlling shareholder of Oriental. Raffles Education Corp. has become the substantial shareholder of Oriental and directly participates in the management of Oriental.

Due to the relocation of some universities and colleges back to Beijing, the occupation of student dormitories in the 2008/2009 academic year was less satisfactory than that of the previous academic year. The student dormitories were occupied by less than 13,000 students, a decrease of over 3,000 students from the previous academic year.

Oriental recorded an unaudited loss of RMB1.39 million for the year of 2008, compared to a net profit of RMB2.63 million of the previous year, mainly due to factors such as additional charges, additional taxes, and a decrease in the number of occupying students and the resulting reduction in rental income.

Pursuant to the relevant agreement, the Fund is under negotiation with the joint venture partner for termination of its participation 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 ("Hansen"), which has a 35% equity interest in the complex, to purchase 5,262 square metres of retail space on the third floor of Mankam. Due to problems concerning ownership, the first and second floors have not yet commenced operation which has caused great difficulty in renting or selling the third floor. The Fund is still actively seeking an opportunity to exit the investment. The Fund reserved for the full amount of this investment in 2005.

China Merchants Plaza (Shanghai) Property Co., Ltd. ("China Merchants Plaza") was incorporated in Shanghai in 1994, to engage in the development of a commercial and business complex. The Fund invested US$5.685 million in 1994 and holds an effective equity interest of 19.8% in China Merchants Plaza. The commercial complex is a 28-storey office/retail building located at North Chengdu Road, Jingan District, Shanghai, with a total saleable area of 60,217 square metres, of which 49,438 square metres (net of the sold area) remain available for leasing. The Fund reserved for the full amount of this investment in 2000 due to the substantial leverage, high financing costs and significant accumulated losses of China Merchants Plaza. For the year ended 31 December 2008, China Merchants Plaza recorded an audited net profit of RMB15.76 million, representing an increase of 22% over the same period last year. The increase in net profit was mainly attributable to higher rents as well as the substantially lower financial costs in relation to its indebtedness, which was denominated primarily in foreign currencies that depreciated against the RMB in 2008.

Shenzhen Jutian Investment Co., Ltd. ("Jutian Investment"). In 2001, the Fund invested RMB35.36 million (equivalent to US$4.27 million) in Jutian Investment, representing an equity interest of 4.66%. The Fund reserved for the full amount of this investment in 2005.

Jutian Investment is fully committed to recovering outstanding debts, disposing of assets, and settling taxation issues and remaining litigation. A third party has indicated preliminary interest in acquiring Jutian Investment. The negotiation related to the share transfer is in progress.

REVIEW OF LISTED INVESTMENTS

In 2008, the A-share market in China tumbled due to the global financial crisis and structural readjustments in the domestic economy. The SSE Composite Index fell from 5,262 points as of end of 2007 to 1,821 points as of end of 2008, a drop of 65.4%. At one point, the market even fell to 1,665 points, a two-year low, and subsequently rallied on positive fiscal policies initiated by the Central Government and moderately loose monetary policies implemented by the People's Bank of China. Hong Kong stock market was also impacted by the financial crisis. The Hang Seng Index dropped from 27,813 points as of end of 2007 to 14,387 points as of end of 2008, a drop of 48.3%, and at one point fell to 10,676 points on 27 October, representing a five-year low. In view of the U.S. sub-prime crisis and the uncertainty and recession risk surrounding economic outlook, the Fund did not buy or sell any trade equities in the secondary market during the reporting period, save for disposal of certain A shares of both CMB and INDB and participation in very small amount of A-share IPOs.

As at 31 December 2008, the Fund had a corporate bond investment amounted to US$0.697 million (2007: US$1.67 million). Details are listed below:

Issuer	Business nature	Investment amount (US$ million)	Net book value (US$ million)	Coupon	Date of maturity
China Insurance International Holdings (BVI) Limited	Insurance	0.695	0.697	5.800%	12 November 2013
		0.695	**0.697**		

PROSPECTS

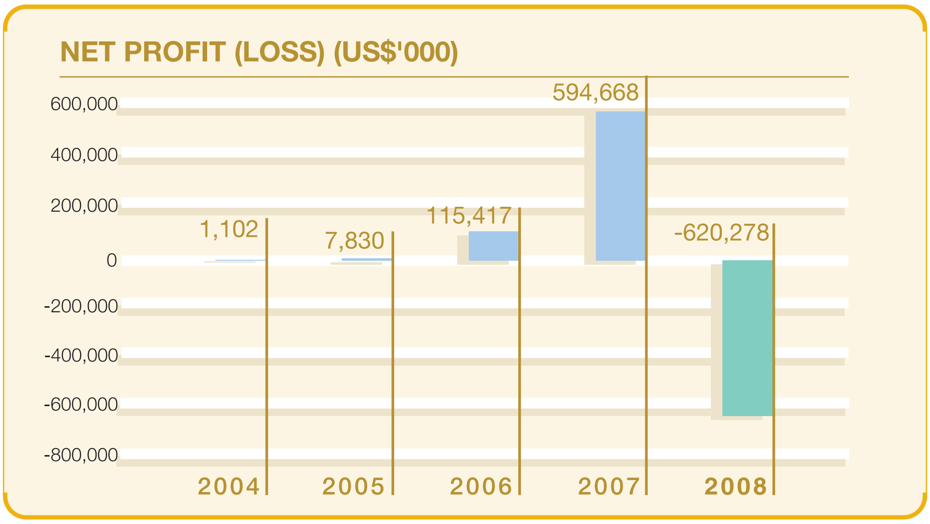
In 2009, the impact of world financial crisis on China's macroeconomy is expected to deepen. The excessive production capacity, sharp reduction in exports and high unemployment rate will all put pressure on Chinese economy. Despite the positive fiscal policy and monetary policy initiated by the Central Government involving a series of measures such as increases in infrastructure investment, improvements in people's livelihood and boosting consumption, which will help China's macroeconomy withstand the negative effects brought about by the world financial crisis, we are still unable to be optimistic about the pace of economic growth in 2009. The operation and investment activities of the Fund will be influenced by all these factors, such as reduction of profit level of corporates, financial strain, an increasing possibility of poorly-performing assets of banks, and fluctuation of RMB exchange rates. However, at the same time, the adjustment of industry structure and the substantial decrease in asset prices that have come along with the financial crisis will bring more investment opportunities for the Fund.

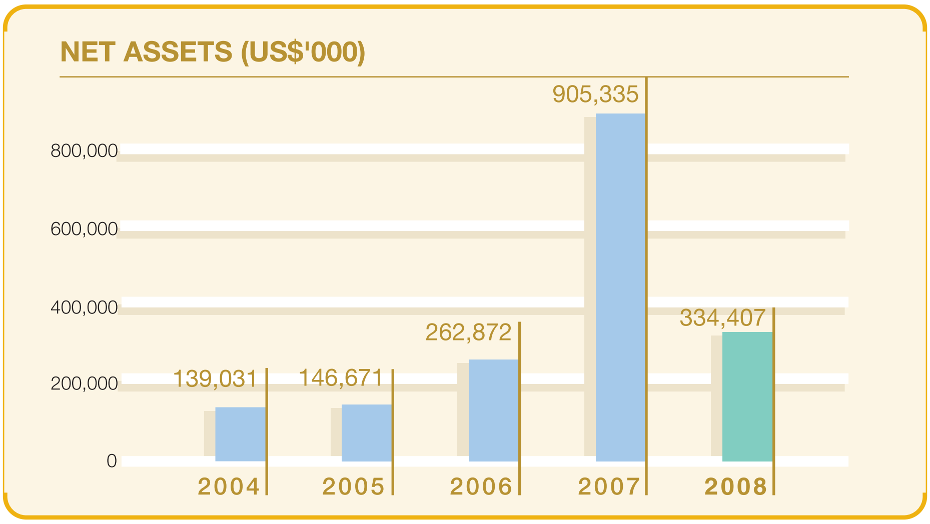
The Fund will continuously make every effort to identify new potential investment projects, with an emphasis on investment opportunities in sectors such as financial services, culture and media, consumption, pharmaceutical, energy and environmental protection. The Fund will also seek to turn its existing investments in order to seek better returns for shareholders.

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

Hong Kong, 7 April 2009

YEAR	NET PROFIT (LOSS) (US$'000)	NET ASSETS (US$'000)
2008	**(620,278)**	**334,407**
2007	594,668	905,335
2006	115,417	262,872
2005	7,830	146,671
2004	1,102	139,031





Directors' Report

The Directors present their annual report and the audited consolidated financial statements for the year ended 31 December 2008.

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 2008 are set out in the consolidated income statement on page 36.

The Directors do not recommend the payment of a final dividend for the year of 2008 (2007: Nil).

DISTRIBUTABLE RESERVES OF THE COMPANY

The Company has no reserves available for distribution as at 31 December 2008.

SHARE CAPITAL

Details of the issued share capital of the Company are set out in note 23 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

Mr. LI Yinquan* *(Chairman)*	(appointed on 4 July 2008)
Mr. HONG Xiaoyuan*	
Mr. CHU Lap Lik, Victor*	
Ms. ZHOU Linda Lei*	(appointed on 6 March 2008)
Mr. TSE Yue Kit	
Ms. KAN Ka Yee, Elizabeth* *(alternate to Mr. CHU Lap Lik, Victor*)*	
Dr. FU Yuning	(resigned on 4 July 2008)
Mr. XIE Kuixing	(resigned on 6 March 2008)

Independent Non-executive Directors

Mr. KUT Ying Hay	
Mr. WANG Jincheng	
Mr. LI Kai Cheong, Samson	(appointed and ceased to act as Alternate Director to Dr. The Hon. David LI Kwok-po on 22 August 2008)
Dr. The Hon. David LI Kwok-po	(resigned on 22 August 2008)

Non-executive Director

Mr. WANG Xingdong	(resigned on 2 January 2008)

* members of Investment Committee

In accordance with Article 101 and Article 105 of the Company's Articles of Association, Mr. TSE Yue Kit, Mr. KUT Ying Hay, Mr. WANG Jincheng, Mr. LI Yinquan and Mr. LI Kai Cheong, Samson 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:

Mr. LI Yinquan, aged 54, was appointed as the Chairman and an Executive Director of the Company on 4 July 2008. He is concurrently the Vice President and Chief Financial Officer of China Merchants Group Limited, which is a substantial shareholder of the Company. He is also a Director of China Merchants Steam Navigation Company Limited, China Merchants Holdings (International) Company Limited (its shares are listed on the Hong Kong Stock Exchange), China Merchants Bank Co., Ltd. (its shares are listed on both the Shanghai Stock Exchange and the Hong Kong Stock Exchange) and China Merchants Energy Shipping Co., Ltd. (its shares are listed on the Shanghai Stock Exchange). Mr. Li joined China Merchants Group Limited in January 2000 and has served respectively as the General Manager of Finance Department, Deputy Chief Financial Officer and Chief Financial Officer and has held the present post since March 2004. Mr. Li previously worked with the Agricultural Bank of China for 14 years, where he held senior posts in various divisions and was the Deputy General Manger of Hong Kong Branch just before leaving for China Merchants Group Limited. Mr. Li obtained a master degree in Economics from the Graduate School of the People's Bank of China in 1986 and a master degree in Banking & Finance from the Finafrica Institute in Milan, Italy in 1988. He is also a qualified senior economist in China. Mr. Li was once honoured as "China CFO of the Year for 2005" and "China Best CIO for the Year 2006".

Mr. HONG Xiaoyuan, aged 46, has been an Executive Director of the Company since 22 June 2007. He is concurrently the Managing Director of China Merchants Finance Holdings Company Limited, which is a substantial shareholder of the Company. He is the Chairman of the Investment Manager. He is also a Director of China Merchants Energy Shipping Co., Ltd. (its shares are listed on the Shanghai Stock Exchange), China Merchants Bank Co., Ltd. (its shares are listed on both the Shanghai Stock Exchange and the Hong Kong Stock Exchange), China Merchants Securities Co., Ltd., China Credit Trust Co., Ltd. and Morgan Stanley Huaxin Fund Management Co., Ltd.; and the Chairman of China Merchants Finance Investment Holdings Co., Ltd., 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 Ltd.. 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 Longbo Enterprise Co., Ltd., the Assistant General Manager of China Merchants Shekou Industrial Zone Co., Ltd., the General Manager of China Merchants Property Development Co., Ltd. and China Merchants Technology Holdings Company Limited, and the Deputy General Manager of China Merchants Shekou Industrial Zone Co., Ltd.. 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 51, 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 40, 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 Co., Ltd. and Langfang Oriental Education Facilities Development Co., Ltd. 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 Co., Ltd. and China Merchants Fund Management Co., Ltd. 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 47, 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 51, 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.

Mr. KUT Ying Hay, aged 54, 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. WANG Jincheng, aged 52, has been an Independent Non-executive Director of the Company since 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 Co., Ltd., 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, aged 48, was appointed as an Independent Non-executive Director on 22 August 2008. He was the Alternate Director to Dr. The Hon. David Li Kwok-po during the period from May 1999 to August 2008. Mr. Li is the Deputy Chief Executive & Chief Investment Officer of The Bank of East Asia, Limited whose shares are listed on the Hong Kong Stock Exchange. Mr. Li has more than ten years of experience specializing 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. Mr. Li is a Fellow of The Hong Kong Institute of Chartered Secretaries, the Institute of Chartered Secretaries & Administrators, and The Association of Chartered Certified Accountants. In addition, he is an Associate of the Hong Kong Institute of Certified Public Accountants and a Member of the Hong Kong Securities Institute. Mr. Li received his Professional Diploma in Accountancy from The Hong Kong Polytechnic University.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SHARES

As at 31 December 2008, 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	Percentage of total issued share capital
Mr. CHU Lap Lik, Victor	3,224,000	Interest of controlled corporation	2.16%

Save as disclosed above, none of the Directors or chief executives, or their associates, had any interests or short positions in any shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of the SFO) as recorded in the register required to be kept under Section 352 of the SFO as at 31 December 2008, 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 2008.

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 2008, 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	35,859,760	24.04%
China Merchants Steam Navigation Company Limited (Note 3)	Long position	Interest of controlled corporation	35,859,760	24.04%
China Merchants Holdings (Hong Kong) Company Limited (Note 1)	Long position	Interest of controlled corporation	35,859,760	24.04%
China Merchants Finance Holdings Company Limited (Note 2)	Long position	Interest of controlled corporation	35,859,760	24.04%
China Merchants Financial Services Limited (Note 3)	Long position	Interest of controlled corporation	33,989,760	22.79%
Good Image Limited	Long position	Beneficial owner	33,989,760	22.79%
Deutsche Bank Aktiengesellschaft	Long position	Beneficial owner	1,777,836	6.99%
		Security interest	8,642,664	
	Short position	Beneficial owner	1,044,000	0.70%
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	25,188,300	16.89%
UBS AG	Long position	Beneficial owner	190,000	9.68%
		Security interest	14,239,290	
Kuchanny Christopher Philip Charles (Note 4)	Long position	Interest of controlled corporation	10,086,500	6.76%
Osmium Capital Management Limited	Long position	Investment manager	10,086,500	6.76%
Osmium Special Situations Fund Limited	Long position	Beneficial owner	10,086,500	6.76%

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

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

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

Note 4: Kuchanny Christopher Philip Charles is deemed to have corporate interests in the shares by virtue of its interest in the company whose name is set out immediately under it.

Save as disclosed above, there was no person, other than a Director or chief executive of the Company, who had an interest or short position in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO.

PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of its Directors, throughout the year of 2008, 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").

CONNECTED TRANSACTIONS

During the year, the Group had the following continuing connected transactions and certain details of which are disclosed in compliance with the requirements of Chapter 14A of the Listing Rules.

1. 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, Mr. CHU Lap Lik, Victor, Ms. ZHOU Linda Lei (appointed on 6 March 2008), Mr. TSE Yue Kit and Mr. XIE Kuixing (resigned on 6 March 2008) are Directors of both the Company and the Investment Manager. Mr. CHU Lap Lik, Victor has indirect beneficial interests in the Investment Manager. The investment Manager is a subsidiary of a substantial shareholder of the Company and is therefore a connected person of the Company under Chapter 14A of the Listing Rules. 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.

Under the Agreement, the management fees which are calculated based on a fixed percentage on the value of the Group's assets as stipulated in the Agreement, totalling US$13,584,553 (2007: US$16,828,839) were paid or payable to the Investment Manager. No performance fee (2007: US$104,240,057) which is calculated based on a fixed percentage on the excess of an agreed increment of the Group's net asset value after certain adjustment stipulated in the Agreement was accrued to the Investment Manager.

CONNECTED TRANSACTIONS (continued)

2. Brokerage Agreements

On 13 December 2007, China Merchants Industry Development (Shenzhen) Limited ("CMID"), a wholly-owned subsidiary of the Company entered into brokerage agreements with China Merchants Securities Co., Ltd. ("CMS") in relation to the securities brokerage service provided by CMS to CMID. CMS is a subsidiary of a substantial shareholder of the Company and is therefore a connected person of the Company under Chapter 14A of the Listing Rules. For the year ended 31 December 2008, the securities brokerage commission fees totalling US$34,070 (2007: Nil) were paid or payable to CMS.

The Independent Non-executive Directors have reviewed the above continuing connected transactions and confirmed that the transactions have been entered into:

1. in the ordinary and usual course of the business of the Company and its subsidiaries;

2. on normal commercial terms or on terms no less favourable to the Company than terms available to or from independent third parties; and

3. in accordance with the relevant agreement governing them on terms that are fair and reasonable and in the interest of the shareholders of the Company as a whole.

Save as disclosed above, details of significant related party transactions are disclosed in note 27 to the 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.

By order of the Board

Mr. LI Yinquan
Chairman

Hong Kong, 7 April 2009

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

According to the Investment Management Agreement, the portfolio and day-to-day administration of the Company are handled by the Investment Manager. Meanwhile, 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, and it is suitable for the Company to hold regular Board meeting twice a year at a minimum.

Besides, at the forthcoming annual general meeting of the Company, resolutions will be put forth to approve the re-election of Mr. LI Yinquan and Mr. LI Kai Cheong, Samson as Directors of the Company pursuant to Article 101 of the Articles of Association of the Company. However, according to the code provision A.4.2, all Directors appointed to fill a casual vacancy should be subject to election by shareholders at the first general meeting after their appointment, i.e. the extraordinary general meeting of the Company held on 15 December 2008.

Finally, owing to a business trip, the former Chairman, Dr. FU Yuning has given an apology for not being able to host the annual general meeting of the Company which was held on 26 May 2008.

THE BOARD OF DIRECTORS

As at 31 December 2008, the Board consisted of five Executive Directors and three Independent Non-executive Directors as defined by the Listing Rules. The biography of the Directors are set out on pages 20 to 23 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.

THE BOARD OF DIRECTORS (continued)

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 two regular 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 2008
Executive Directors:	
Mr. LI Yinquan *(Chairman)* (appointed on 4 July 2008)	1/1
Mr. HONG Xiaoyuan	2/2
Mr. CHU Lap Lik, Victor	0/2
Ms. ZHOU Linda Lei (appointed on 6 March 2008)	2/2
Mr. TSE Yue Kit	2/2
Dr. FU Yuning *(Chairman)* (resigned on 4 July 2008)	1/1
Mr. XIE Kuixing (resigned on 6 March 2008)	0/0
Non-executive Director:	
Mr. WANG Xingdong (resigned on 2 January 2008)	0/0
Independent Non-executive Directors:	
Mr. KUT Ying Hay	2/2
Mr. WANG Jincheng	2/2
Mr. LI Kai Cheong, Samson (appointed on 22 August 2008)	1/1
Dr. The Hon. David LI Kwok-po (resigned on 22 August 2008)	0/1
Alternate Directors:	
Ms. KAN Ka Yee, Elizabeth *(alternate to Mr. CHU Lap Lik, Victor)*	1/2
Mr. LI Kai Cheong, Samson *(alternate to Dr. The Hon. David LI Kwok-po)* (ceased on 22 August 2008)	0/1

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 OF DIRECTORS (continued)

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 including the Chairman are Independent Non-executive Directors. 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;
- reviewing the interim and annual results;
- reviewing internal control and risk management systems; and
- 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:	
Mr. LI Kai Cheong, Samson *(Chairman of the Audit Committee)* (appointed on 22 August 2008)	1/1
Mr. KUT Ying Hay	2/2
Mr. WANG Jincheng (appointed on 11 February 2008)	1/2
Dr. The Hon. David LI Kwok-po *(Chairman of the Audit Committee)* (resigned on 22 August 2008)	0/1
Mr. WANG Xingdong (resigned on 2 January 2008)	0/0
Alternate Director:	
Mr. LI Kai Cheong, Samson *(alternate to Dr. The Hon. David LI Kwok-po)* (ceased on 22 August 2008)	1/1

THE BOARD OF DIRECTORS (continued)

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 2008;
- reviewed the interim report and the interim results announcement for the six months ended 30 June 2008;
- reviewed the audit plan for year 2008 to assess the general scope of audit work;
- reviewed the audited financial statements and final results announcement for year 2007; and
- considered the internal controls assessment report prepared by the Company's independent auditor.

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

The Investment Committee

The Board has established an Investment Committee, of which currently has four 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.

During the year under review, the Investment Committee has approved the proposals in relation to the disposal of the Company's investments in China Merchants Securities Co., Ltd., Industrial Bank Co., Ltd. and China Merchants Bank Co., Ltd.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Dr. FU Yuning was the Chairman of the Company until 4 July 2008 and Mr. LI Yinquan was appointed as a Director and to succeed Dr. FU as the Chairman of the Company on the same date. The functions of the Chief Executive Officer have been undertaken by the Investment Manager. For the period from 1 January 2008 to 19 February 2008, the Managing Director of the Investment Manager was Mr. XIE Kuixing, who was also a Director of the Company until 6 March 2008. On 19 February 2008, Ms. ZHOU Linda Lei was appointed to succeed Mr. XIE as the Managing Director of the Investment Manager and has been a Director of the Company since 6 March 2008. The roles of the Chairman and Chief Executive Officer are segregated and are exercised by different persons.

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 26 May 2008, it was resolved that the remuneration of the Directors for the year ending 31 December 2008 be fixed by the Board. The total remuneration payable to the Directors for the year ended 31 December 2008 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.

By written resolutions of all Directors of the Company dated 4 July 2008 and 22 August 2008, Mr. LI Yinquan was appointed as Chairman and Executive Director pursuant to the resignation of Dr. FU Yuning; and Mr. LI Kai Cheong, Samson was appointed as Independent Non-executive Director pursuant to the resignation of Dr. The Hon. David LI Kwok-po. The said appointments took effect from 4 July 2008 and 22 August 2008 respectively. At a meeting of the Board held on 6 March 2008 with the presence of Mr. TSE Yue Kit, Ms. KAN Ka Yee, Elizabeth (alternate to Mr. CHU Lap Lik, Victor), Mr. KUT Ying Hay and Mr. LI Kai Cheong, Samson (alternate to Dr. The Hon. David LI Kwok-po), Ms. ZHOU Linda Lei was appointed as Executive Director with effect from 6 March 2008 pursuant to the resignation of Mr. XIE Kuixing.

According to the Articles of Association of the Company, any Directors appointed by the Board shall hold office until the next following annual general meeting of the Company, 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$93,680 and for non-audit services provided is US$81,653 which was mainly for the purpose of reviewing the internal control systems, circular related to disposal mandates of China Merchants Bank Co., Ltd. and Industrial Bank Co., Ltd. and continuing connected transactions of the Company.

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 related announcements 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 34.

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 the recommendations. As requested by the Board, the Investment Manager has established an internal control system setting out the policies and procedures on investments and realisations, securities dealing, and financial reporting. The Investment Manager is required to regularly update such policies and procedures.

INVESTOR RELATIONSHIP AND COMMUNICATION

The Company endeavours to maintain a high level of transparency when communicating with shareholders and the investment community at large. The Company is committed to maintaining an open and effective communication policy, and updates its shareholders and investors on relevant information on our business through general meetings, annual and interim reports, notices, announcements and circulars.

The general meetings, including annual general meetings, provide a useful forum for shareholders to exchange their views with the Board. Separate resolutions are proposed at the general meetings on each substantially separate issue, including the election of Directors and very substantial disposals.

The Company (through the Investment Manager) has also held a number of meetings with shareholders and institutional investors on their requests throughout the year under review so as to discuss and explain the Company's investment strategies and hear their opinions.

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 36 to 75, which comprise the consolidated and Company balance sheets as at 31 December 2008, 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.

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 2008 and of the Group's loss 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
7 April 2009

Consolidated Income Statement

For the year ended 31 December 2008

	Notes	2008 US$	2007 US$
Investment income	6	**12,767,998**	8,669,147
Change in fair value of financial assets designated at fair value through profit or loss		**(783,313,725)**	917,350,318
Other income		**1,239,053**	1,967,603
Administrative expenses		**(14,547,449)**	(121,750,784)
Share of results of associates		**(2,206,239)**	3,422,469
(Loss) profit before taxation	8	**(786,060,362)**	809,658,753
Taxation	11	**165,781,898**	(214,990,720)
(Loss) profit attributable to equity holders of the Company		**(620,278,464)**	594,668,033
Basic and diluted (loss) earnings per share	12	**(4.159)**	4.041

Consolidated Balance Sheet

At 31 December 2008

	Notes	2008 US$	2007 US$
Non-current assets			
Interests in associates	14	**16,077,183**	17,898,812
Financial assets at fair value through profit or loss	15	**61,409,483**	637,431,863
Other investments in financial assets	16	**697,139**	697,011
		78,183,805	656,027,686
Current assets			
Financial assets at fair value through profit or loss	15	**345,748,162**	560,168,661
Other receivables	18	**1,071,794**	99,308
Bank balances and cash	19	**101,994,877**	45,687,332
		448,814,833	605,955,301
Current liabilities			
Other payables	20	**106,737,490**	110,098,943
Taxation payable	21	**11,493,691**	163,558
		118,231,181	110,262,501
Net current assets		**330,583,652**	495,692,800
Total assets less current liabilities		**408,767,457**	1,151,720,486
Non-current liability			
Deferred taxation	22	**74,360,243**	246,385,543
Net assets		**334,407,214**	905,334,943

	Notes	2008 US$	2007 US$
Capital and reserves			
Share capital	23	**14,914,560**	14,914,560
Share premium and reserves		**319,492,654**	890,420,383
Total capital and reserves attributable to the equity holders of the Company		**334,407,214**	905,334,943
Net asset value per share	25	**2.242**	6.070

The consolidated financial statements on pages 36 to 75 were approved and authorised for issue by the Board of Directors on 7 April 2009 and are signed on its behalf by:

Mr. HONG Xiaoyuan
Director

Ms. ZHOU Linda Lei
Director

Balance Sheet

At 31 December 2008

	Notes	2008 US$	2007 US$
Non-current assets			
Investments in subsidiaries	13	**13,500,007**	10,000,007
Financial assets at fair value through profit or loss	15	**34,295,729**	22,145,343
Amounts due from subsidiaries	17	**64,888,383**	8,888,943
		112,684,119	41,034,293
Current assets			
Amounts due from subsidiaries	17	**74,528,000**	42,694,947
Other receivables	18	**36,356**	35,417
Bank balances and cash	19	**5,164,897**	33,540,827
		79,729,253	76,271,191
Current liabilities			
Amounts due to subsidiaries	17	**3,347,835**	2,349,289
Other payables	20	**106,737,490**	110,098,531
Taxation payable	21	**3,728,000**	—
		113,813,325	112,447,820
Net current liabilities		**(34,084,072)**	(36,176,629)
Total assets less current liabilities		**78,600,047**	4,857,664
Non-current liability			
Deferred taxation	22	**1,899,699**	684,661
Net assets		**76,700,348**	4,173,003
Capital and reserves			
Share capital	23	**14,914,560**	14,914,560
Share premium and reserves	24	**61,785,788**	(10,741,557)
Total capital and reserves attributable to the equity holders of the Company		**76,700,348**	4,173,003

Mr. HONG Xiaoyuan
Director

Ms. ZHOU Linda Lei
Director

Consolidated Statement of Changes in Equity

For the year ended 31 December 2008

ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

	Share capital US$	Share premium US$	Exchange reserve US$	General reserve US$	Retained profits US$	Total US$
Balance at 1 January 2007	13,714,560	81,525,984	2,171,912	1,554,251	163,905,403	262,872,110
Exchange difference on translation	—	—	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 recognised income 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
Exchange difference on translation	**—**	**—**	**48,024,774**	**—**	**—**	**48,024,774**
Share of changes in reserve of associates	**—**	**—**	**1,325,961**	**—**	**—**	**1,325,961**
Net income recognised directly in equity	**—**	**—**	**49,350,735**	**—**	**—**	**49,350,735**
Loss for the year	**—**	**—**	**—**	**—**	**(620,278,464)**	**(620,278,464)**
Total recognised income/ (expense) for the year	**—**	**—**	**49,350,735**	**—**	**(620,278,464)**	**(570,927,729)**
Transfer to general reserve	**—**	**—**	**—**	**3,838,682**	**(3,838,682)**	**—**
Balance at 31 December 2008	**14,914,560**	**109,493,184**	**70,150,247**	**5,893,813**	**133,955,410**	**334,407,214**

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

Consolidated Cash Flow Statement

For the year ended 31 December 2008

	2008	2007
	US$	US$
OPERATING ACTIVITIES		
(Loss) profit before taxation	**(786,060,362)**	809,658,753
Adjustments for:		
Share of results of associates	**2,206,239**	(3,422,469)
Interest income	**(868,762)**	(1,716,488)
Dividend income from equity investments	**(11,899,236)**	(6,952,659)
Unrealised loss (gain) on financial assets designated at fair value through profit or loss	**710,886,002**	(914,951,375)
Net loss on disposal of other investments in financial assets	**—**	14,034
Operating cash flows before movements in working capital	**(85,736,119)**	(117,370,204)
Decrease in financial assets at fair value through profit or loss	**140,155,336**	1,692,998
Increase in other receivables	**(198,454)**	(1,225)
(Decrease) increase in other payables	**(3,361,453)**	91,062,533
Cash generated from (used in) operations	**50,859,310**	(24,615,898)
Interest received	**855,020**	1,691,394
Dividend received	**12,081,451**	6,952,659
Income taxes paid	**(7,366,614)**	(155,316)
NET CASH GENERATED FROM (USED IN) OPERATING ACTIVITIES	**56,429,167**	(16,127,161)
INVESTING ACTIVITIES		
Repayment from callable deposits	**—**	2,980,686
Advance to associates	**(1,153)**	(1,884)
Repayment of capital from associates	**—**	660,572
Proceeds from disposal of held-to-maturity financial assets	**—**	2,040,611
NET CASH (USED IN) GENERATED FROM INVESTING ACTIVITIES	**(1,153)**	5,679,985
CASH GENERATED FROM FINANCING ACTIVITY		
Proceeds from issue of ordinary shares	**—**	29,167,200
NET INCREASE IN CASH AND CASH EQUIVALENTS	**56,428,014**	18,720,024
CASH AND CASH EQUIVALENTS AS AT 1 JANUARY	**45,687,332**	27,672,116
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	**(120,469)**	(704,808)
CASH AND CASH EQUIVALENTS AS AT 31 DECEMBER	**101,994,877**	45,687,332

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 principal subsidiaries and associates are set out in notes 28 and 14 respectively.

The functional currency of the group entities is Renminbi ("RMB"), the currency of the primary economic environment in which the respective group entities operate. For the purpose of convenience 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 "HKFRSs")

In the current year, the Group and the Company, for the first time, have applied the following amendments and interpretations ("new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), which are or have become effective for the Group's financial year beginning 1 January 2008.

HKAS 39 & HKFRS 7 (Amendments)	Reclassification of financial assets
HK(IFRIC) - INT 11	HKFRS 2: Group and treasury share transactions
HK(IFRIC) - INT 12	Service concession arrangements
HK(IFRIC) - INT 14	HKAS 19 - The limit on a defined benefit asset, minimum funding requirements and their interaction

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

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

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

HKFRSs (Amendments)	Improvements to HKFRSs[1]
HKAS 1 (Revised)	Presentation of financial statements[2]
HKAS 23 (Revised)	Borrowing costs[2]
HKAS 27 (Revised)	Consolidated and separate financial statements[3]
HKAS 32 & 1 (Amendments)	Puttable financial instruments and obligations arising on liquidation[2]
HKAS 39 (Amendment)	Eligible hedged items[3]
HKFRS 1 & HKAS 27 (Amendments)	Cost of an investment in a subsidiary, jointly controlled entity or associate[2]
HKFRS 2 (Amendment)	Vesting conditions and cancellations[2]
HKFRS 3 (Revised)	Business combinations[3]
HKFRS 7 (Amendment)	Improving disclosures about financial instruments[2]
HKFRS 8	Operating segments[2]
HK(IFRIC) - INT 9 & HKAS 39 (Amendments)	Embedded derivatives[4]
HK(IFRIC) - INT 13	Customer loyalty programmes[5]
HK(IFRIC) - INT 15	Agreements for the construction of real estate[2]
HK(IFRIC) - INT 16	Hedges of a net investment in a foreign operation[6]
HK(IFRIC) - INT 17	Distribution of non-cash assets to owners[3]
HK(IFRIC) - INT 18	Transfers of assets from customers[7]

1 Effective for annual periods beginning on or after 1 January 2009 except for the amendments to HKFRS 5, effective for annual periods beginning on or after 1 July 2009.
2 Effective for annual periods beginning on or after 1 January 2009.
3 Effective for annual periods beginning on or after 1 July 2009.
4 Effective for annual periods ending on or after 30 June 2009.
5 Effective for annual periods beginning on or after 1 July 2008.
6 Effective for annual periods beginning on or after 1 October 2008.
7 Effective for transfers of assets from customers received on or after 1 July 2009.

The application of HKFRS 3 (Revised) may affect the Group's accounting for business combination for which the acquisition date is on or after the beginning of the Group's first annual reporting period beginning on or after 1 January 2010. HKAS 27 (Revised) will affect the Group's accounting treatment for changes in a parent's ownership interest in a subsidiary. The Directors of the Company anticipate that the application of the other new and revised standards, amendments or interpretations will have no material impact on the results and the financial position of the Group.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated 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 consolidated financial statements have been prepared in accordance with the new HKFRSs. In addition, the consolidated 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, balances, income and expenses are eliminated on consolidation.

Investments in subsidiaries

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

Interests in associates

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture.

The results and assets and liabilities of associates are incorporated in these consolidated 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 associates, 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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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 profit or loss.

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 available-for-sale 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 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.

Interest income is recognised on an effective interest basis for debt instruments included in both financial assets at FVTPL and other investments in financial assets.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets (continued)

Financial assets at fair value through profit or loss

Financial assets at FVTPL of the Group represent 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 (other receivables, and bank balances) are carried at amortised cost using the effective interest method, less any impairment losses (see accounting policy on impairment loss on financial assets below).

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).

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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 an available-for-sale investment, a significant or prolonged decline in the fair value of that investment below its cost is considered to be objective evidence of impairment.

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 amount due from a subsidiary or an associate 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 profit or loss.

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 profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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 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 retranslation 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 except for exchange differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity, in which cases, the exchange differences are also recognised directly in equity.

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 and the Company (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 recognised as a separate component of equity (the translation reserve). Such exchange differences are recognised in profit or loss in the period which the foreign operation is disposed of.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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 items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base 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 profits will be available to allow all or part of the asset 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 profit or loss, 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	
	2008	2007	**2008**	2007
	US$	US$	**US$**	US$
Financial assets				
Fair value through profit or loss				
Designated at fair value through profit or loss	**407,157,645**	1,197,600,524	**34,295,729**	22,145,343
Available-for-sale	**697,139**	697,011	**—**	—
Loans and receivables (including cash and cash equivalents)	**103,030,961**	45,786,640	**144,581,926**	85,160,134
Financial liabilities				
Amortised cost	**106,737,490**	110,098,943	**110,085,325**	112,447,820

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.

5. FINANCIAL INSTRUMENTS (continued)

Market risk

Currency risk

The Group and the Company undertake certain transactions including amounts due from/to subsidiaries, other receivables, cash and bank balances and other payables, 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 any 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.

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

	THE GROUP	
	2008	2007
	US$	US$
Hong Kong Dollar	**3,205,262**	6,869,159

	THE COMPANY	
	2008	2007
	US$	US$
Hong Kong Dollar	**3,193,989**	6,857,982
Renminbi	**110,805,039**	42,478,991

Foreign currency sensitivity

The Group and the Company are mainly exposed to the currencies of HKD and RMB. For the currency risk of the Group's and the Company's bank balances and cash, the exposure is mainly in HKD against USD, no sensitivity analysis 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 result for the year would increase /decrease by US$5,832,000 (2007: US$2,235,000).

The Company's sensitivity to foreign currency has increased during the current year mainly due to the increase in amount due from subsidiaries, which are denominated in RMB and the rise of exchange rate of RMB against USD during the year.

5. FINANCIAL INSTRUMENTS (continued)

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.

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. The Group considers that there is no significant impact on the results of the Group arising from the volatility of interest rates.

Interest rate sensitivity

The sensitivity analyses below, which include interest rate exposure on short-term fixed interest bearing bank deposits, have been determined based on the exposure to interest rates for both derivatives and non-derivative instruments at the balance sheet date. A 100 basis point change is used which represents the 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 result for the year would increase/decrease by US$529,000 (2007: US$455,099) and the Company's result for the year would increase/decrease by US$24,000 (2007: US$334,883). 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 equity securities which are not subject to trading moratorium and 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. Due to the volatile financial market in 2008, the management adjusted the sensitivity rate from 10% to 20% for the purpose of assessing equity price risk.

If the input of market bid prices of the equity securities which are not subject to trading moratorium, for the calculation of their fair values had been 20% (2007: 10%) higher/lower, the Group's result for the year would increase/decrease by US$81,423,000 (2007: US$119,660,072). This is mainly attributable to the changes in fair values of the investments designated at fair value through profit or loss.

5. FINANCIAL INSTRUMENTS (continued)

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 bank balances and cash.

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 2008 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 banks 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 on such authorised institutions is low.

Liquidity risk

Liquidity risk is the risk that the Group and the Company are unable to meet their payment obligations associated with their financial liabilities when they fall due. The Group and the Company manage liquidity risk by maintaining adequate reserves, as well as banking facilities and 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 and the Company regularly review the major funding positions to ensure adequate financial resources are available to meet their respective financial obligations. In the opinion of the management, taking into account of the availability of marketable securities that can be disposed of by a subsidiary of the Company, the Company is able to meet its financial obligations when they fall due.

The Group's financial liabilities represent other payables (management and performance fee accruals) and the Company's financial liabilities represent other payables (management and performance fee accruals) and amounts due to subsidiaries. They are all 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 values 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	
	2008	2007
	US$	US$
Interest income	**868,762**	1,716,488
Dividend income	**11,899,236**	6,952,659
Total	**12,767,998**	8,669,147

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 investment income, contribution to operating profit (loss), assets and liabilities for the year ended 31 December 2008, analysed by geographical location of assets with reference to the operation of the investees were as follows:

For the year ended 31 December 2008

	Hong Kong	**The PRC**	**Others**	**Consolidated**
	US$	**US$**	**US$**	**US$**
INVESTMENT INCOME				
Group investment income	**297,730**	**12,426,846**	**43,422**	**12,767,998**
RESULT				
Segment result	**161,884**	**(784,366,586)**	**74,422**	**(784,130,280)**
Other income				**1,239,053**
Unallocated corporate expenses				**(962,896)**
Share of results of associates	**—**	**(2,206,239)**	**—**	**(2,206,239)**
Loss before taxation				**(786,060,362)**
Taxation	**—**	**165,781,898**	**—**	**165,781,898**
Loss attributable to equity holders of the Company				**(620,278,464)**

7. SEGMENTAL INFORMATION (continued)

BALANCE SHEET
At 31 December 2008

	Hong Kong US$	The PRC US$	Others US$	Consolidated US$
ASSETS				
Bank balances and cash	5,221,236	96,773,641	—	101,994,877
Other receivables	1,005,579	66,215	—	1,071,794
Interests in associates	—	16,077,183	—	16,077,183
Financial assets at fair value through profit or loss	42,307	407,115,338	—	407,157,645
Other investments in financial assets	—	—	697,139	697,139
Consolidated total assets	6,269,122	520,032,377	697,139	526,998,638
LIABILITIES				
Other payables	106,714,810	22,680	—	106,737,490
Taxation payable and deferred taxation	—	85,853,934	—	85,853,934
Consolidated total liabilities	106,714,810	85,876,614	—	192,591,424

7. SEGMENTAL INFORMATION (continued)

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 holders of the Company				594,668,033

7. SEGMENTAL INFORMATION (continued)

BALANCE SHEET

At 31 December 2007

	Hong Kong US$	The PRC US$	Others US$	Consolidated US$
ASSETS				
Bank balances and cash	33,557,040	12,130,292	—	45,687,332
Other receivables	62,053	37,255	—	99,308
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

8. (LOSS) PROFIT BEFORE TAXATION

	THE GROUP	
	2008 US$	2007 US$
(Loss) profit before taxation has been arrived at after charging (crediting):		
Auditor's remuneration	**93,496**	84,871
Net foreign exchange gain	**(1,218,649)**	(1,952,980)
Investment Manager's management fee	**13,584,553**	16,828,839
Investment Manager's performance fee	**—**	104,240,057
Directors' fees	**58,984**	105,224
Share of tax of associates (included in share of results of associates)	**(460,837)**	708,213

9. DIRECTORS' EMOLUMENTS

The Directors' fees paid or payable to each of the 13 (2007: 15) Directors were as follows:

	THE GROUP	
	2008	2007
	US$	US$
Executive Directors:		
Mr. LI Yinquan**	**10,258**	—
Dr. FU Yuning##	**—**	15,396
Dr. HUANG Dazhan#	**N/A**	3,857
Mr. HONG Xiaoyuan*	**6,411**	6,409
Mr. CHU Lap Lik, Victor	**6,411**	10,266
Mr. XIE Kuixing##	**—**	10,266
Mr. TSE Yue Kit	**6,411**	10,266
Ms. ZHOU Linda Lei**	**6,411**	N/A
Ms. KAN Ka Yee, Elizabeth *(Alternate Director)*	**—**	—
	35,902	56,460

9. DIRECTORS' EMOLUMENTS (continued)

	THE GROUP	
	2008	2007
	US$	US$
Non-executive Directors:		
Mr. WANG Xingdong##	**—**	11,547
Mr. GONG Jianzhong#	**N/A**	3,857
	—	15,404
Independent Non-executive Directors:		
Dr. The Hon. David LI Kwok-po##	**—**	11,547
Mr. KUT Ying Hay	**7,694**	11,547
Dr. POON Kwok Lim, Steven#	**N/A**	3,857
Mr. WANG Jincheng*	**7,694**	6,409
Mr. LI Kai Cheong, Samson**	**7,694**	—
	23,082	33,360
Total	**58,984**	105,224

* The Directors were appointed during the year 2007.
** The Directors were 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 2008 and 2007 were all Directors of the Company and details of their emoluments are included in note 9 above.

11. TAXATION

The tax credit (charge) for the year comprises:

	THE GROUP	
	2008	2007
	US$	US$
The Company and its subsidiaries		
Current tax:		
Hong Kong	**—**	(63,600)
Other regions in the PRC	**(18,435,323)**	(203,741)
	(18,435,323)	(267,341)
Deferred taxation (Note 22)		
Current year	**192,971,447**	(196,792,303)
Attributable to a change in tax rate in opening balance	**—**	(17,931,076)
Attributable to the change in expected reversal date of temporary differences	**(8,754,226)**	—
Total	**165,781,898**	(214,990,720)

On 26 June 2008, the Hong Kong Legislative Council passed the Revenue Bill 2008 which reduced corporate profits tax rate from 17.5% to 16.5% effective from the year of assessment 2008/2009. Therefore, Hong Kong profits tax is calculated at 16.5% (2007: 17.5%) on the estimated assessable profits for the years. Taxation arising in other regions in the PRC is calculated at the rates prevailing in the relevant regions.

The PRC promulgated the Law of The PRC on Enterprise Income Tax (the "New Law") by Order No. 63 of the President of the PRC on 16 March 2007. The State Council of the PRC issued Implementation Regulations of the New Law and the Notification of the State Council on Carrying Out the Transitional Preferential Policies concerning Enterprise Income Tax (Guo Fa (2007) No. 39) on 6 December 2007 and 26 December 2007 respectively. Accordingly, the applicable Enterprise Income Tax rate for a PRC subsidiary of the Company in 2008 is 18% (2007: 15%) and such tax will be gradually increased to 25% in 2012. Other PRC incorporated entities which incorporated after 15 March 2007, are subject to 25% tax rate for Enterprise Income Tax with effect from 1 January 2008.

11. TAXATION (continued)

The tax credit (charge) for the year can be reconciled to the (loss) profit before taxation per the consolidated income statement as follows:

	2008	2007
	US$	US$
(Loss) profit before taxation	**(786,060,362)**	809,658,753
Share of results of associates	**2,206,239**	(3,422,469)
(Loss) profit before taxation attributable to the Company and its subsidiaries	**(783,854,123)**	806,236,284
Tax at the domestic income tax rate of 18% (2007: 15%) (Note 1)	**141,093,742**	(120,935,442)
Tax effect of expenses not deductible for tax purpose	**(2,888,940)**	(20,746,101)
Tax effect of income not taxable for tax purpose	**2,614,779**	1,562,221
Tax effect of tax losses/deductible temporary differences not recognised	**(418,922)**	(10,496)
Utilisation of tax losses previously not recognised	**—**	293,219
Effect of different tax rates of subsidiaries operating in other regions in the PRC	**971,396**	437,469
Adjustment on deferred tax on disposal of financial assets at fair value through profit or loss	**2,287,522**	—
Adjustment on deferred tax resulting from change in expected reversal date of temporary difference	**(8,754,226)**	—
Increase in opening deferred tax liability resulting from an increase in applicable tax rate	**—**	(17,931,076)
Effect of different tax rate applied for deferred tax liability reversed (recognised) for the year	**34,604,547**	(57,660,514)
Dividend withholding taxation in the PRC (Note 2)	**(3,728,000)**	—
Taxation	**165,781,898**	(214,990,720)

Note 1: The domestic tax rate (which is PRC Enterprise Income Tax rate applicable to the Company's subsidiary in the PRC) represents the tax rate in the jurisdiction where the investments of the Group are substantially located.

Note 2: Under the New Law of the PRC, withholding tax is imposed on dividends declared in respect of profits earned by PRC subsidiaries from 1 January 2008 onwards. Withholding tax has been provided for in the consolidated financial statements in respect of temporary differences attributable to accumulated profits of the PRC subsidiaries.

12. BASIC AND DILUTED (LOSS) EARNINGS PER SHARE

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

	THE GROUP	
	2008	2007
(Loss) earnings for the purpose of basic and diluted (loss) earnings per share (US$)	**(620,278,464)**	594,668,033
Weighted average of number of ordinary shares for the purpose of basic and diluted (loss) earnings per share	**149,145,600**	147,145,600
Basic and diluted (loss) earnings per share (US$)	**(4.159)**	4.041

13. INVESTMENTS IN SUBSIDIARIES

	THE COMPANY	
	2008	2007
	US$	US$
Unlisted shares, at cost	**10,000,007**	10,000,007
Deemed capital contribution through interest-free loans	**3,500,000**	—
	13,500,007	10,000,007

Particulars of the Company's principal subsidiaries at 31 December 2008 are set out in note 28.

14. INTERESTS IN ASSOCIATES

	THE GROUP	
	2008	2007
	US$	US$
Cost of unlisted investments in associates	**17,173,392**	17,933,682
Share of post-acquisition results, net of dividends received	**(3,294,982)**	(906,529)
Share of exchange reserve	**2,195,736**	869,775
	16,074,146	17,896,928
Amounts due from associates	**6,549,032**	6,547,879
Allowance on amounts due from associates	**(6,545,995)**	(6,545,995)
	3,037	1,884
Total	**16,077,183**	17,898,812

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

14. INTERESTS IN ASSOCIATES (continued)

As at 31 December 2008, 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	BVI/PRC	Ordinary	Property investment	35%
Shandong Jinbao Electronics Co., Ltd. (Formerly known as Zhaoyuan Jinbao Electronics Co., Ltd.)	PRC/PRC	Registered capital	Manufacturing electronics products	30%
Langfang Oriential Education Facilities Development Co., Ltd.	PRC/PRC	Registered capital	Dormitories investment	25%

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

	2008	2007
	US$	US$
Total assets	**361,941,074**	339,754,721
Total liabilities	**(291,892,735)**	(270,537,110)
Net assets	**70,048,339**	69,217,611
Group's share of net assets of associates	**16,077,183**	17,898,812
Turnover	**199,387,384**	188,043,508
(Loss) profit for the year	**(5,926,286)**	13,002,703
Group's share of results of associates for the year (excluding unrecognised share of profits of associates having accumulated losses in prior year)	**(2,206,239)**	3,422,469

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:

	2008 US$	2007 US$
Unrecognised share of profits for the year	**(478,400)**	(377,243)
Accumulated unrecognised share of losses of associates	**2,946,118**	3,424,518

15. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	THE GROUP	
	2008 US$	2007 US$
Equity securities:		
– listed in PRC (note a)	**345,748,162**	—
– subject to trading moratorium (note b)	**—**	1,167,500,317
– unlisted (note c)	**38,356,483**	29,131,207
– unlisted preferred equity (note c)	**23,053,000**	—
	407,157,645	1,196,631,524
Debt securities:		
– unlisted (note d)	**—**	969,000
Total	**407,157,645**	1,197,600,524
Analysed to reporting purposes as		
Current assets	**345,748,162**	560,168,661
Non-current assets	**61,409,483**	637,431,863
Total	**407,157,645**	1,197,600,524

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

	THE COMPANY	
	2008	2007
	US$	US$
Equity securities:		
– unlisted (note c)	**34,295,729**	22,145,343

Notes:

(a) The listed equity securities represented the Group's interest held in China Merchants Bank Co., Ltd. ("CMB") and Industrial Bank Co., Ltd. ("INDB"). The fair values of the above listed securities are determined based on the quoted market bid prices available on the relevant exchanges.

(b) The equity securities subject to trading moratorium represented the Group's interest held in CMB and INDB at the end of 2007. The fair values of the investment are estimated by reference to the market prices of CMB's and INDB's circulating shares after adjusting the marketability factor due to their non-circulation. All these equity securities have been circulated during the year 2008.

(c) The fair value is determined by reference to the valuation models (note 29).

(d) The unlisted debt security carrying floating interest rate and with maturity due on 20 August 2013 was redeemed during the year as triggered by automatic early redemption clause. The fair value of prior year was obtained from the issuer.

Particulars of the Group's investment portfolio which exceeds 10% of the assets of the Group at 31 December 2008 disclosed pursuant to Section 129(2) of the Companies Ordinance are as follows:

Name of company	**Place of registration**	**Class of share capital**	**2008 Percentage of equity held by the Group**	2007 Percentage of equity held by the Group
China Merchants Bank Co., Ltd.	PRC	A shares	**0.79%**	0.83%
Industrial Bank Co., Ltd.	PRC	A shares	**1.30%**	1.68%

These A shares, which were subject to trading moratorium in 2007, are freely transferrable in the market since the lock-up period ended in February 2008.

16. OTHER INVESTMENTS IN FINANCIAL ASSETS

	THE GROUP	
	2008	2007
	US$	US$
Listed debt securities - available-for-sale (note a)	**697,139**	697,011

Note:

(a) The maturity of the debt securities which carry effective interest rate of 5.80% falls into:

	THE GROUP	
	2008	2007
	US$	US$
Over one year but less than five years	**697,139**	—
Over five years	**—**	697,011
Total	**697,139**	697,011

17. AMOUNTS DUE FROM (TO) SUBSIDIARIES

	THE COMPANY	
	2008	2007
	US$	US$
Amounts due from subsidiaries	**150,298,775**	62,466,282
Less: Allowance on amounts due from subsidiaries	**(10,882,392)**	(10,882,392)
	139,416,383	51,583,890
Analysis of amounts due from subsidiaries		
Current	**74,528,000**	42,694,947
Non-current	**64,888,383**	8,888,943
	139,416,383	51,583,890
Amounts due to subsidiaries	**3,347,835**	2,349,289

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

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

	THE COMPANY	
	2008	2007
	US$	US$
Allowance on amounts due from subsidiaries at 1 January and 31 December	**10,882,392**	10,882,392

The amounts due from subsidiaries are impaired because the carrying amounts are larger than the present value of discounted cash flows of the impaired subsidiaries. The other amounts due from subsidiaries which are neither past due nor impaired have good quality as they have the repayment ability to settle the outstanding amounts.

18. OTHER RECEIVABLES

	THE GROUP	
	2008	2007
	US$	US$
Interest receivable	**88,511**	74,769
Other receivables	**801,068**	24,539
Dividend receivable	**182,215**	—
Total	**1,071,794**	99,308

	THE COMPANY	
	2008	2007
	US$	US$
Interest receivable	**646**	14,279
Other receivables	**35,710**	21,138
Total	**36,356**	35,417

19. BANK BALANCES AND CASH

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 of amount due to China Merchants China Investment Management Limited ("Investment Manager") mainly for performance fee and management fee as disclosed in note 27.

21. TAXATION PAYABLE

THE GROUP AND THE COMPANY

The taxation payable represents applicable PRC taxes calculated at the rates prevailing in the relevant regions.

22. 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	
	2008	2007
	US$	US$
Balance at 1 January	**246,385,543**	31,662,164
(Credit) charge to consolidated income statement for the year	**(192,971,447)**	196,792,303
Attributable to a change in expected reversal date of temporary differences	**8,754,226**	—
Exchange differences	**12,191,921**	—
Attributable to a change in tax rate in opening balance	**—**	17,931,076
Balance at 31 December	**74,360,243**	246,385,543

At the balance sheet date, the Group had deductible temporary differences and estimated unused tax losses available for offsetting against future taxable profits of US$5,279,639 (2007: US$4,840,790) and US$2,410,077 (2007: US$82,733) respectively. The losses can be carried forward indefinitely for Hong Kong Profits Tax.

22. DEFERRED TAXATION (continued)

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	
	2008	2007
	US$	US$
Balance at 1 January	**684,661**	242,672
Charge to income statement for the year	**1,215,038**	441,989
Balance at 31 December	**1,899,699**	684,661

At the balance sheet date, the Company had nil deductible temporary differences (2007: nil) and estimated unused tax losses of US$2,399,231 (2007: US$82,733) available for offsetting against future taxable profits. The losses can be carried forward indefinitely for Hong Kong Profits Tax.

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 tax losses can be utilised.

23. SHARE CAPITAL

	Number of shares	US$
Ordinary shares of US$0.10 each		
Authorised:		
At 1 January 2007	**150,000,000**	**15,000,000**
Increase in 2007	**150,000,000**	**15,000,000**
At 31 December 2007, 1 January and 31 December 2008	**300,000,000**	**30,000,000**
Issued and fully paid:		
At 1 January 2007	**137,145,600**	**13,714,560**
Issue of ordinary shares in 2007	**12,000,000**	**1,200,000**
At 31 December 2007, 1 January and 31 December 2008	**149,145,600**	**14,914,560**

The Company issued 12,000,000 new shares on 6 February 2007 at a 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.

24. SHARE PREMIUM AND RESERVES

	THE COMPANY		
	Share premium US$	Accumulated losses US$	Total US$
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 1 January 2008	**109,493,184**	**(120,234,741)**	**(10,741,557)**
Profit for the year	**—**	**72,527,345**	**72,527,345**
Balance at 31 December 2008	**109,493,184**	**(47,707,396)**	**61,785,788**

25. NET ASSET VALUE PER SHARE

The calculation of the net asset value per share is based on the net assets of US$334,407,214 (2007: US$905,334,943) and 149,145,600 ordinary shares (2007: 149,145,600 ordinary shares) of US$0.10 each in issue.

26. 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:

	2008	2007
	US$	US$
Within one year	**9,276**	7,560
In the second to fifth years inclusive	**12,368**	—
	21,644	7,560

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

27. RELATED PARTY TRANSACTIONS

The Company has appointed 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, the Group has incurred the following related party transactions:

(a) Management fees totalling US$13,584,553 (2007: US$16,828,839) 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.

(b) No performance fee (2007: US$104,240,057) was accrued to the Investment Manager. The fee is calculated based on a fixed percentage on the excess of an agreed increment of the Group's net asset value after certain adjustment stipulated in the investment management agreement.

Amount due to the Investment Manager of US$106,456,766 as at 31 December 2008 (2007: US$109,925,509) was included in other payables in the consolidated balance sheet. Amount due to the Investment Manager is unsecured, interest free and is repayable on demand.

(c) Rental fees in respect of the office properties totalling US$16,020 (2007: US$14,433) were paid or payable to a wholly-owned subsidiary of a substantial shareholder of the Company (Note 1).

(d) Securities brokerage commission fees totalling US$34,070 (2007: nil) were paid or payable to a subsidiary of a substantial shareholder of the Company (Note 1).

(e) Details of compensation to Directors are set out in note 9.

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

28. PARTICULARS OF PRINCIPAL SUBSIDIARIES

Particulars of all principal subsidiaries at 31 December 2008, which are all wholly-owned 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	BVI/PRC	Investment holding	1 share of US$1 each (Limited liability company)
Main Star Investment Limited	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)
Shenzhen Tian Zheng Investment Co., Ltd. *	PRC/PRC	Investment holding	Paid up capital of RMB100,000,000 (Limited liability company)
Wheaton International Limited	BVI/PRC	Investment holding	1 share of US$1 each (Limited liability company)
Wisetech Limited	BVI/PRC	Inactive	1 share of US$1 each (Limited liability company)

None of the subsidiaries had any debt securities subsisting at 31 December 2008 or at any time during the year.

* The entity, which is the indirect wholly-owned subsidiary of the Group, was newly incorporated on 16 October 2008.

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 are as follows:

Fair value of financial assets at fair value through profit or loss

As indicated in note 15, the Group selects appropriate valuation techniques for financial instruments not quoted in an active market. Valuation techniques commonly used by market practitioners are applied. The fair values of unlisted financial assets designated at fair value through profit or loss are determined in accordance with generally accepted pricing models on the basis of market multiples and discounted cash flows. The values assigned to the financial assets are based upon available information and do not necessarily represent amounts which might ultimately be realised, since such amounts depend on future circumstances and cannot be reasonably determined until the individual position is realised.

FINANCIAL SUMMARY

CONSOLIDATED RESULTS

	For the year ended 31 December				
	2004	2005	2006	2007	**2008**
	US$	US$	US$	US$	**US$**
	(restated)				
Investment income	2,670,343	3,118,649	5,443,293	8,669,147	**12,767,998**
Profit (loss) from operations after finance costs	433,886	11,152,435	136,552,868	806,236,284	**(783,854,123)**
Share of results of associates	785,508	(1,301,764)	1,203,233	3,422,469	**(2,206,239)**
Taxation	(116,917)	(2,020,645)	(22,338,826)	(214,990,720)	**165,781,898**
Profit (loss) attributable to equity holders of the Company	1,102,477	7,830,026	115,417,275	594,668,033	**(620,278,464)**

CONSOLIDATED ASSETS AND LIABILITIES

	As at 31 December				
	2004	2005	2006	2007	**2008**
	US$	US$	US$	US$	**US$**
Total assets	147,415,428	157,459,741	313,622,217	1,261,982,987	**526,998,638**
Total liabilities	(8,384,890)	(10,788,779)	(50,750,107)	(356,648,044)	**(192,591,424)**
Shareholders' funds	139,030,538	146,670,962	262,872,110	905,334,943	**334,407,214**