China Merchants China Direct Investments Limited

(Incorporated in Hong Kong with limited liability)

(Stock Code: 133)

CREATING VALUE IN

CHINA

ANNUAL REPORT 2018

CONTENTS

CORPORATE INFORMATION

BOARD OF DIRECTORS

Mr. ZHANG Jian* *(Chairman)*
Mr. ZHANG Rizhong*
Mr. CHU Lap Lik, Victor#
Mr. WANG Xiaoding#
Mr. TSE Yue Kit#
Ms. KAN Ka Yee, Elizabeth
(alternate to Mr. CHU Lap Lik, Victor#)
Mr. KE Shifeng*
Mr. LIU Baojie**
Mr. TSANG Wah Kwong**
Dr. LI Fang**

Executive Directors
* *Non-executive Directors*
** *Independent Non-executive Directors*

INVESTMENT COMMITTEE

Mr. ZHANG Jian
Mr. ZHANG Rizhong
Mr. CHU Lap Lik, Victor
Mr. WANG Xiaoding
Ms. KAN Ka Yee, Elizabeth
(alternate to Mr. CHU Lap Lik, Victor)

AUDIT COMMITTEE

Mr. TSANG Wah Kwong
Mr. LIU Baojie
Dr. LI Fang

NOMINATION COMMITTEE

Mr. ZHANG Jian
Mr. TSANG Wah Kwong
Dr. LI Fang

COMPANY SECRETARY

Mr. LEUNG Chong Shun

INVESTMENT MANAGER

China Merchants China Investment Management Limited
1604-09, Three Pacific Place,
1 Queen's Road East,
Hong Kong

AUDITOR

Deloitte Touche Tohmatsu

LEGAL ADVISERS

Herbert Smith Freehills
Victor Chu & Co
Woo Kwan Lee & Lo

PRINCIPAL BANKERS

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

SHARE REGISTRAR

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

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

1609, Three Pacific Place,
1 Queen's Road East,
Hong Kong

Stock Code: 0133.HK
Website: www.cmcdi.com.hk

Mr. ZHANG Jian
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 2018 amounted to US$575.06 million, representing a decrease of 18.50% compared to US$705.63 million in 2017. The net asset value per share was US$3.775, representing the same percentage decrease of 18.50% compared to US$4.632 in 2017. The Group's audited consolidated loss for 2018 was US$87.02 million, while the audited consolidated profit after taxation for last year was US$117.90 million.

The Board has recommended the payment of a final dividend of US$0.07 per share for the year 2018, representing an increase of US$0.01, or an increase of 16.67%, compared to last year. In addition, a special dividend of US$0.05 per share will be proposed. As a special interim dividend of US$0.05 per share was declared and paid in November 2018, total dividends payable for the year 2018 were US$0.17 per share, compared to US$0.06 per share last year, representing an increase of 183.33%.

In 2018, the US economy continued to realise rapid growth against a backdrop of slowing momentum in the major global economies. The US Federal Reserve ("**Fed**") expected the US economy to reach a growth rate of 3.1% for 2018, up from 2.2% in 2017. After reaching a peak of economic activity in the second half of 2017, the Eurozone has shown a significant slowdown in its rate of growth in 2018. Under the influence of Brexit and signs of tightening in global trade, the economy of the Eurozone showed greater vulnerability to downside risks. The International Monetary Fund (IMF) estimated that the economy of the Eurozone would grow by 2.0% in 2018, somewhat slower than previously expected. China's Gross Domestic Product (GDP) growth in 2018 was 6.6%, exceeding the target of 6.5% set at the beginning of the year, but still the lowest rate of growth in the past 28 years. In terms of quarters, due to the impact of changes in Fed policy, the escalation of US-China trade frictions and volatility due to domestic economic policy adjustments, the economic growth rate decreased sequentially in each quarter during the second half of the year. According to a preliminary report by the National Bureau of Statistics, China's GDP for 2018 was approximately RMB90 trillion, representing an increase of 6.6% over the previous year in terms of comparable prices. The yearly gross import and export volume of goods increased by 9.7% over the previous year, while the gross trade volume exceeded RMB30 trillion for the first time, achieving a target of stable and positive growth. The yearly value added by the country's larger industrial enterprises actually increased by 6.2% over the previous year, showing slow, but steady, growth. The Consumer Price Index of China for the year rose by 2.1% year-over-year, at a moderately rising rate that was below the expected goal of 3%.

In 2018, the A shares market of China showed a significant downtrend. On 29 January 2018, the SSE Composite Index climbed to 3587 points at its highest level of the year, but subsequently dropped to 2449 points on 19 October 2018 and achieved a turn-around afterward. It finally closed at 2494 points at the end of 2018, which was 24.58% lower than that at the end of 2017. In 2018, the Hong Kong stock market generally experienced a downward trend. The Hang Seng Index increased to 33484 points at its highest level of the year on 29 January 2018, and then declined to its lowest level of the year at 24541 points on 30 October 2018, with some recovery afterward. It finally closed at 25846 points at the end of 2018, representing a decrease of 13.61% as compared to the end of 2017.

At the end of 2018, the Group's total holdings in investment projects amounted to US$634.21 million (US$824.96 million at the end of 2017), accounting for 92.20% of the Group's total asset value and representing a decrease of US$190.75 million. This was largely due to a significant net decrease in the fair value of investment projects, as well as a decrease in the Renminbi exchange rate. Meanwhile, cash and cash equivalents were US$48.45 million, accounting for 7.04% of the total asset value of the Group.

In 2018, the Investment Manager actively sought new investment opportunities, with intensive due diligence and the screening of many prospects, and consequently the Group completed the investment of three direct investment projects, namely Ningbo Meishan Free Trade Port Area Jiangmen Venture Capital LLP, Beijing CAS Cambricon Technology Co., Ltd. and Pony AI Inc., in the total amount of US$18.68 million, all related to the field of information technology.

In 2018, the Group disposed of 23.94 million A shares of Industrial Bank Co., Ltd. ("**IBC**") for net proceeds of US$69.45 million. Presently, the Group has completed the disposal of its entire holding of A shares of IBC and exited from this investment.

The existing investment management agreement expired on 31 December 2018. As such, the Company and the Investment Manager renewed an investment management agreement with a term of three years on 18 October 2018. With the consideration and recommendations of the Independent Board Committee, comprised entirely Independent Non-executive Directors of the Company, and approved by the independent shareholders of the Company on 28 November 2018, the new agreement came into effect on 1 January 2019.

Looking ahead to 2019, there will be challenges as well as opportunities. The major global economies are facing a slowdown in growth. According to a forecast released by the Fed in December 2018, the US economic growth rate will slow to 2.3% in 2019, representing a significant decrease from 2018. A tightening environment in the financial markets and a diminishing effect of economic stimulus measures may become the major driving factors for a decline in US economic growth. The European Central Bank anticipates that the Eurozone's economic growth rate will be 1.7% in 2019. Uncertainties related to geopolitical issues, threats from trade protectionism, vulnerabilities in emerging markets, as well as volatility in financial markets continue to exist, posing downside risk to the Eurozone's economic growth. In addition, the UK faces relatively unclear economic prospects as the uncertainty of Brexit continues to hinder business investment and curb consumer spending, hence depressing long-term growth. In 2019, economic activity in China is expected to continue to slow. In response to the impact of global trade protectionism, the IMF has estimated that China's GDP growth rate in 2019 will be 6.2%. The year 2019 is both the 70th anniversary of the establishment of New China, as well as a crucial year for building a prosperous society in a well-rounded way. It is expected that China will continue to pursue proactive fiscal policies and steady monetary policies. Although we expect that various asset price risks, arising from slowing growth in the global economy (including China) and volatility in the capital markets, will bring certain challenges to our investment portfolio, the Investment Manager, as always, will face the challenges ahead and strive to identify new investment opportunities, as well as to seek to optimise our mix of investments in a way that will increase shareholders' return.

Lastly, on behalf of the Board, I would like to offer my heartfelt gratitude to Mr. HONG Xiaoyuan for his valuable contributions to the Company during his tenure as the Director and Chairman of the Board, as well as to the members of the Audit Committee, Nomination Committee and Investment Committee, and to the entire staff of the Investment Manager, for their many contributions and dedicated effort, and to the shareholders for their support. As always, I will continue to give my best effort in leading the Group as we seek to create value for shareholders in the coming year.

Mr. ZHANG Jian
Chairman

Hong Kong, 28 March 2019

Mr. ZHANG Rizhong
Chairman of the Board
of the Investment Manager

INVESTMENT MANAGER'S DISCUSSION AND ANALYSIS

OVERALL PERFORMANCE

China Merchants China Direct Investments Limited and its subsidiaries (the "**Fund**") recorded a loss attributable to equity shareholders of US$87.02 million for the year ended 31 December 2018, compared to a profit attributable to equity shareholders of US$117.90 million for last year. The reversal was mainly due to a decline in the overall value of the financial assets at fair value through profit or loss (the "**Financial Assets**"), resulting in the recognition of a loss, rather than a gain as in the prior year. As of 31 December 2018, the net assets of the Fund were US$575.06 million (31 December 2017: US$705.63 million), with a net asset value per share of US$3.775 (31 December 2017: US$4.632).

The net loss on the Financial Assets for the year was US$111.12 million, compared to a net gain of US$174.21 million for last year. The listed and unlisted investments recorded net losses of US$56.96 million and US$54.16 million, respectively. For more information on the change in fair value of each of the listed and unlisted investments, please see the section titled "Review of Investments" in this Investment Manager's Discussion and Analysis.

Total investment income for the year increased by 24.13% to US$18.88 million (2017: US$15.21 million) as compared to last year, due mainly to an increase in dividend and distribution income from investments, and to an increase in interest income.

MATERIAL ACQUISITIONS AND DISPOSALS OF INVESTMENTS

In 2018, the Fund continued to seek out and rigorously evaluate investment opportunities, completing the funding for three new projects, all related to the field of information technology.

On 29 January 2018, the Fund completed a capital contribution of RMB30 million (equivalent to US$4.74 million) to Ningbo Meishan Free Trade Port Area Jiangmen Venture Capital LLP (the "**Jiangmen Ventures Fund**"), representing 7.32% of the total fund subscription amount. The major investment targets of the Jiangmen Ventures Fund are enterprises related to machine intelligence, Internet of Things (IoT), natural user interface, and enterprise computing, with a primary focus on early-stage business ventures.

On 5 June 2018, the Fund entered into some relevant agreements in relation to Beijing CAS Cambricon Technology Co., Ltd. ("**Cambricon**"), pursuant to which the Fund, via a partnership entity, indirectly participated in the capital funding of Cambricon. On 14 June 2018, the Fund completed a capital contribution of approximately RMB38 million (equivalent to US$5.94 million) for a beneficial equity interest of 0.246% in Cambricon upon conclusion of the funding round. Cambricon is a high technology company that focuses on the research, development and design of artificial intelligence (AI) chips.

On 27 June 2018, the Fund entered into a preferred share purchase agreement and other relevant agreements in relation to Pony AI Inc. ("**Pony AI**"), pursuant to which the Fund agreed to contribute capital of US$8 million to Pony AI in exchange for not less than a 0.8% stake in Pony AI upon conclusion of the funding round. The Fund completed the capital contribution of US$8 million on 6 July 2018. Pony AI is a research and development company in China that focuses on technology solutions for autonomous driving.

MATERIAL ACQUISITIONS AND DISPOSALS OF INVESTMENTS (CONTINUED)

In addition, the Fund disposed of and exited from one investment during the year.

The Fund was granted authorisation by its shareholders to dispose of its entire holding of A shares of Industrial Bank Co., Ltd. ("**IBC**"). During the period of January to February 2018, the Fund disposed of the entire remaining balance of 23.94 million A shares of IBC for net proceeds of US$69.45 million. Thus far, the Fund has completed the disposal of its entire holding of A shares of IBC and exited from this investment. The pre-tax internal rate of return to the Fund from IBC was 28.35%.

LIQUIDITY, FINANCIAL RESOURCES, GEARING AND COMMITMENTS

The Fund's cash and cash equivalents slightly increased by 1.42%, from US$47.77 million at the end of last year to US$48.45 million (representing 7.04% of the Fund's total assets) as of 31 December 2018. Although the Fund received a substantial amount of proceeds from the disposal of the entire remaining balance of A shares of IBC, it also made payments for the related taxes, capital contributions for new investments, a special interim dividend, and other items during the year.

As of 31 December 2018, the Fund had no outstanding bank loans (31 December 2017: Nil).

As of 31 December 2018, the Fund had commitments of US$20.15 million (31 December 2017: US$27.83 million) for investments that were approved but not yet provided for in the financial statements — specifically, for future payments related to investments in China Media Creative Industry Private Equity (Shanghai) Centre (Limited Partnership), Guangxi Xinhua Preschool Education Investment Corporation Limited, Yunnan Jinlanmei International Travel Investment Development Co., Ltd. and Anhui Iflytek Venture Capital LLP.

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 the US dollar recorded a decrease of 5.04% in 2018, which had a certain negative impact on the Fund since it holds a considerable amount of assets denominated in RMB. The Fund currently does not have any foreign currency hedging policy. However, the Fund continues to monitor foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

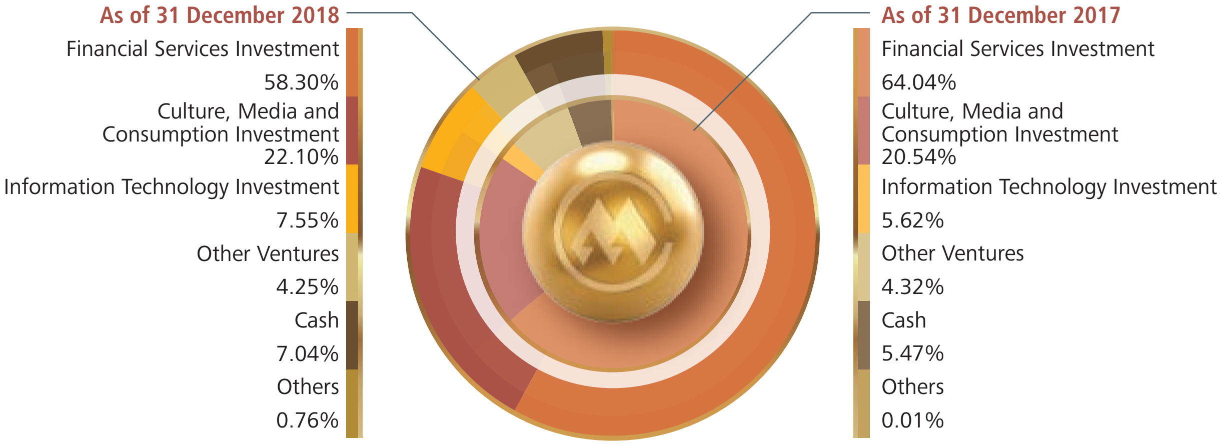
EMPLOYEES

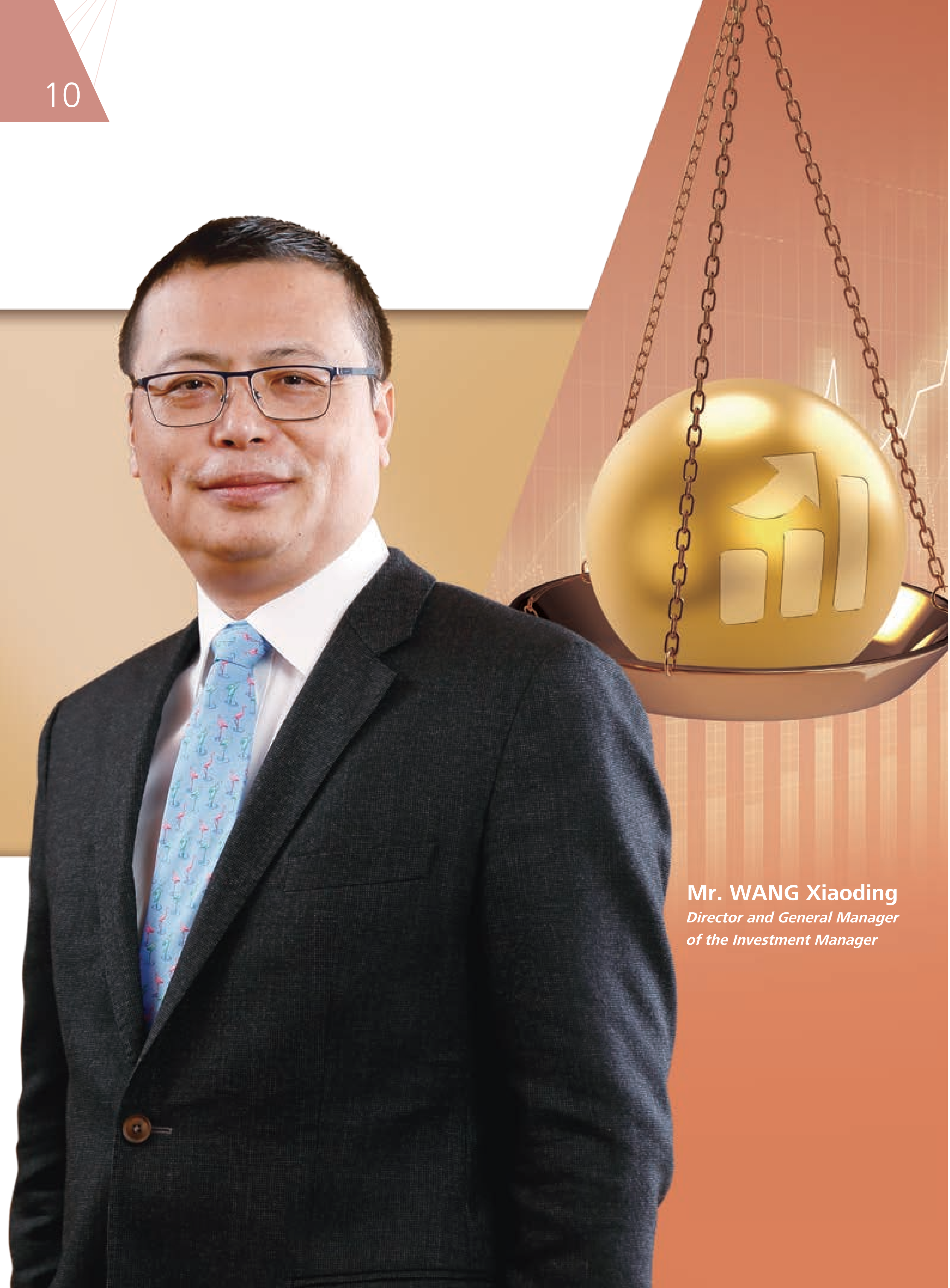
Other than a qualified accountant whose remuneration package is determined and borne by the Investment Manager, the Fund has no employees. The Investment Manager handles the portfolio and day-to-day administration of the Fund.

THE PORTFOLIO

As of 31 December 2018, the Fund's total investments amounted to US$634.21 million. The sector distribution of investments was US$401.08 million in financial services (representing 58.30% of the Fund's total assets), US$152.03 million in culture, media and consumption (22.10%), US$51.92 million in information technology (7.55%), and US$29.18 million in other ventures (including manufacturing, energy and resources, and education, etc.) (4.25%). In addition, cash and cash equivalents were US$48.45 million, representing 7.04% of the Fund's total assets as of 31 December 2018.

TOTAL ASSETS DISTRIBUTION





Mr. WANG Xiaoding
Director and General Manager of the Investment Manager

REVIEW OF INVESTMENTS

The following table shows the major investment projects held by the Fund as at 31 December 2018:

Name of projects	Location of headquarters	Main business	Listed (Stock Exchange)/ unlisted	Carrying value *(US$ million)*	Percentage of total assets %	Percentage of net assets %
Financial Services:						
#1. China Merchants Bank Co., Ltd.	Shenzhen, Guangdong	Banking	Shanghai Stock Exchange	202	29.45	35.23
#2. China Credit Trust Co., Ltd.	Beijing	Trust management	Unlisted	149	21.68	25.94
#3. JIC Leasing Co., Ltd.	Beijing	Finance leasing	Unlisted	28	4.03	4.82
#4. China Reinsurance (Group) Corporation	Beijing	Reinsurance	Hong Kong Stock Exchange	14	1.98	2.37
5. China Media (Tianjin) Investment Management Co., Ltd.	Tianjin	Fund management	Unlisted	8	1.16	1.39
			Sub-total:	**401**	**58.30**	**69.75**
Culture, Media & Consumption:						
#6. China Media Creative Industry Private Equity (Shanghai) Centre (Limited Partnership)	Shanghai	Media investment	Unlisted	42	6.03	7.22
#7. NBA China, L.P.	Beijing	Sports marketing	Unlisted	15	2.19	2.62
8. Unibank Media Group Inc.	Beijing	Indoor media	Unlisted	1	0.13	0.16
9. Besttone Holding Co., Ltd.	Shanghai	Commercial Service	Shanghai Stock Exchange	10	1.46	1.75
10. Oriental Pearl Media Co., Ltd.	Shanghai	Multimedia	Shanghai Stock Exchange	7	1.01	1.20
11. Yunnan Jinlanmei International Travel Investment Development Co., Ltd.	Xishuangbanna, Yunnan	Travel	Unlisted	1	0.16	0.19
#12. Rong Bao Zhai Culture Co., Ltd.	Beijing	Artwork marketing	Unlisted	41	6.02	7.20
#13. Qinghai Provincial Qinghai Lake Tourism Group Co., Ltd.	Xining, Qinghai	Travel	Unlisted	35	5.10	6.10
			Sub-total:	**152**	**22.10**	**26.44**

REVIEW OF INVESTMENTS (CONTINUED)

Name of projects	Location of headquarters	Main business	Listed (Stock Exchange)/ unlisted	Carrying value (US$ million)	Percentage of total assets %	Percentage of net assets %
Information Technology:						
14. Xi'an Jinpower Electrical Co., Ltd.	Xi'an, Shaanxi	Power grid monitoring system	New Third Board *Note*	1	0.09	0.10
15. Anhui Iflytek Venture Capital LLP	Hefei, Anhui	Information technology investment	Unlisted	8	1.21	1.45
#16. Iflytek Co., Ltd.	Hefei, Anhui	Intelligent speech technology	Shenzhen Stock Exchange	24	3.55	4.25
17. Ningbo Meishan Free Trade Port Area Jiangmen Venture Capital LLP	Beijing	Information technology investment	Unlisted	5	0.74	0.88
18. Beijing CAS Cambricon Technology Co., Ltd.	Beijing	Artificial intelligence chips	Unlisted	6	0.80	0.96
19. Pony AI Inc.	Fremont, California	Autonomous driving	Unlisted	8	1.16	1.39
			Sub-total:	**52**	**7.55**	**9.03**
Others:						
(i) Manufacturing:						
20. Shenzhen Geesun Intelligent Technology Co., Ltd.	Shenzhen, Guangdong	Production equipment for lithium ion batteries	Unlisted	5	0.76	0.91
21. Jiangsu Huaer Quartz Materials Co., Ltd.	Yangzhou, Jiangsu	High purity silica crucibles	Unlisted	0	0.04	0.04
#22. Hwagain Group Co., Ltd.	Nanning, Guangxi	Printing paper & tissue paper	Unlisted	13	1.83	2.19
(ii) Energy & Resources:						
23. Wuhan Rixin Technology Co., Ltd.	Wuhan, Hubei	Solar energy	New Third Board *Note*	2	0.24	0.29
(iii) Education:						
24. Guangxi Xinhua Preschool Education Investment Corporation Limited	Nanning, Guangxi	Preschool education	Unlisted	5	0.74	0.88
			Sub-total:	**25**	**3.61**	**4.31**
			Total:	**630**	**91.56**	**109.53**

\# ***Ten largest investments of the Fund as of 31 December 2018***

Note: New Third Board means National Equities Exchange and Quotations

REVIEW OF INVESTMENTS (CONTINUED)

China Merchants Bank Co., Ltd. ("CMB") is China's first joint-stock commercial bank, with its headquarters in Shenzhen, Guangdong and with its shares listed on the Shanghai Stock Exchange since 2002 and on the Hong Kong Stock Exchange since 2006. As of 31 December 2018, the Fund held 55.20 million A shares of CMB, representing an equity interest of 0.219%, with a corresponding investment cost of RMB154.61 million (equivalent to US$19.79 million). In July 2018, the Fund received a cash dividend of RMB46.37 million from CMB for 2017.

As of the end of 2018, the carrying value of the Fund's interest in CMB was US$202.59 million, representing a decrease of 17.36% from the value at the end of last year of US$245.14 million.

On 23 March 2019, CMB announced that its audited net profit for 2018 was RMB80.6 billion, up 14.84% year-over-year.

On 23 March 2018, CMB announced that it intends to invest RMB5 billion to establish CMB Asset Management Co., Ltd., a wholly-owned asset management subsidiary. The establishment of an asset management subsidiary is an important step for CMB to take in meeting the latest requirements of the regulatory authorities, as well as to promote the healthy development of its asset management business, for it will change the legal status of its asset management business unit from a department to a legal entity and thus improve its institutional structure, while separating all risks of the legal entity from the parent company — all consistent with the company's goal of "Being trusted by our clients. Managing wealth for our clients.". The investment must still be approved by the relevant regulatory authorities.

On 27 June 2018, a proposal to issue capital bonds was approved by the shareholders meeting of CMB, which intended to issue qualified secondary capital instruments with a value of not more than RMB20 billion and a term of not less than 5 years. The funds to be raised would be partially used to replace the subordinated debt issued in 2008, which would be redeemed on 4 September 2018 at RMB7 billion, and to replace the secondary capital debt issued in 2014, which would be redeemed on 22 April 2019 at RMB11.3 billion, while raising additional secondary capital in order to improve the capital adequacy ratio, enhance its risk resistance ability, and support the sustainable and steady development of its business. CMB completed the issuance of the capital bonds of RMB20 billion on 19 November 2018.

In 2018, the Fund did not dispose of any A shares of CMB.

REVIEW OF INVESTMENTS (CONTINUED)

China Credit Trust Co., Ltd. ("CCT") was established in 1995, with its headquarters in Beijing. The principal activities of CCT are trust management, fund management, investments and loan financing. It is the first trust company with a full range of licenses for international business in the Chinese trust industry. As of 31 December 2018, the Fund held a 6.94% equity interest in CCT, with a total investment cost of US$50.49 million. In April 2018, CCT declared a cash dividend for 2017, and the Fund is entitled to receive a total of US$8.30 million (pre-tax) from CCT.

As of the end of 2018, the carrying value of the Fund's interest in CCT was US$149.15 million, representing a decrease of 26.69% from the value at the end of last year of US$203.44 million.

For 2018, CCT recorded an unaudited net profit of RMB1.10 billion, down 14.62% year-over-year. It recorded a significant increase in income from commissions and handling fees, partly offset by a significant decrease in interest income, as compared to last year. It also recorded a loss due to asset impairment during the year. Moreover, investment income and the gain on change in fair value decreased as compared to last year. Although revenue grew in 2018, CCT also recorded provisions for certain projects, because of adopting stringent policy consistent with banking industry practice, which in turn affected profit for the year. In addition, due to regulatory requirements, CCT significantly reduced its channel business. However, at the same time, CCT also proactively developed its actively managed trust business, and the size of its trust assets under active management reached a record high for recent years.

Chinese financial regulators have communicated to trust companies the concept of "risk prevention and de-leveraging" and a requirement for the financial industry to return to its original purpose of serving the real economy. Accordingly, new regulations have been issued to strengthen the supervision of trust companies and to force a comprehensive reduction in the channel business. According to the China Trustee Association, as of the end of 2018, the size of the industry's trust assets under management was RMB22.70 trillion, down 13.52% from RMB26.25 trillion in 2017, which indicated slackening growth in the trust industry.

In April 2018, CCT was qualified as an underwriter by the National Association of Financial Market Institutional Investors for non-financial corporate debt financing instruments and became one of the first six trust companies to be approved for this line of business. This license offers a new pathway to CCT for entering the capital markets, consistent with its goal to actively explore new businesses, while providing investors with innovative products and other products designed to improve diversified asset allocation.

In July 2018, at the 11th "Credit Trust" Awards Ceremony hosted by the Shanghai Securities News, CCT won the "Excellent Company Award" and "Innovation Leadership Award" for 2017.

REVIEW OF INVESTMENTS (CONTINUED)

JIC Leasing Co., Ltd. ("JIC Leasing") was established in Beijing in 1989, and is a leading independent finance leasing firm in China, principally engaged in finance leasing for businesses in a wide range of industries, including information technology; high-end equipment manufacturing; and healthcare, environmental protection and new energy. The Fund invested RMB246 million (equivalent to US$38.78 million) in October 2015 for a 6.46% equity interest in JIC Leasing.

As of the end of 2018, the carrying value of the Fund's interest in JIC Leasing was US$27.73 million, representing a decrease of 9.70% from the value at the end of last year of US$30.71 million.

During 2018, JIC Leasing's businesses operated normally, with a rapid expansion in its business volume and double-digit growth in its unaudited net profit as compared to last year.

JIC Leasing submitted the materials to apply for an initial public offering (IPO) with the China Securities Regulatory Commission ("**CSRC**") in early May 2017, and provided a response to initial feedback from the CSRC in September 2017. Currently, it has initiated a 2018 update to the IPO application materials and responses to feedback previously submitted. At present, its application is in queue for review by the CSRC.

China Reinsurance (Group) Corporation ("China Re") originated from The People's Insurance Company of China, founded in 1949 as the first insurance company to be established in New China, with its headquarters in Beijing. It was listed on the Hong Kong Stock Exchange in October 2015. As currently the largest local reinsurance group in China, the business of China Re spans reinsurance, insurance, asset management, insurance brokerage, and insurance media. During the periods of November to December 2015 and of February to April 2016, respectively, the Fund acquired 67.24 million H shares of China Re at an average price of HK$2.23 per share on the Hong Kong secondary stock market, for an aggregate invested amount of HK$150 million (equivalent to US$19.31 million). As of 31 December 2018, the Fund held 67.24 million H shares of China Re, accounting for 0.158% of the total issued share capital of China Re. In August 2018, the Fund received a cash dividend (net of tax) of HK$3.49 million from China Re for 2017.

As of the end of 2018, the carrying value of the Fund's interest in China Re was US$13.65 million, representing a decrease of 9.30% from the value at the end of last year of US$15.05 million.

On 29 August 2018, China Re announced that its unaudited net profit for the first half of 2018 was RMB2.33 billion, down 21.10% as compared to the same period last year. One of the primary reasons for the decrease in net profit was a decline in underwriting performance due to fierce competition in the insurance market, along with higher operating costs as well.

REVIEW OF INVESTMENTS (CONTINUED)

On 3 April 2018, China Re announced that its subsidiary, China Continent Property & Casualty Insurance Co., Ltd. ("**CCIC**"), entered into a share subscription agreement with one existing shareholder and eight new strategic investors. A total of 4.686 billion new shares of CCIC were issued to these investors in the amount of RMB10.67 billion, to be used to enhance the capital of CCIC and improve its solvency.

On 6 July 2018, China Re announced that its two subsidiaries, China Property and Casualty Reinsurance Co., Ltd. and CCIC, had both entered into share subscription agreements with China Great Wall Asset Management Co., Ltd. ("**China Great Wall Asset**") to subscribe for a 6.5% equity interest in China Great Wall Asset at RMB5 billion in total. At the same time, China Re and its two subsidiaries entered into strategic cooperation framework agreements with China Great Wall Asset, under which China Re will provide strategic support to China Great Wall Asset based on its extensive experience in the insurance industry.

On 13 September 2018, China Re announced its acquisition of Chaucer, a special insurance/reinsurance company. Pursuant to the agreement, China Re proposed to offer not more than US$865 million for the acquisition of a 100% stake in Chaucer, a subsidiary of Hanover Insurance, a US company. The main business of Chaucer is special insurance and reinsurance in the international market, thus the transaction spans three legal entities located in the UK, Ireland, and Australia.

On 16 December 2018, China Re announced that CCIC, a subsidiary of China Re, acquired Building No. 1 of the Shanghai Fuyuan Landmark Plaza Project for consideration of RMB3.085 billion. This acquisition seeks to produce stable rental income, to benefit from potential capital appreciation of the property, and to strengthen the asset base of China Re, leading to greater diversification in the geographical location of its investment properties.

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

As of the end of 2018, the carrying value of the Fund's interest in China Media Management was US$7.96 million, representing an increase of 237.29% over US$2.36 million at the end of last year.

During the investment period, China Media Management helped China Media Investment to successfully invest in several benchmark projects, and to successfully dispose of the OCJ (東方購物) project and Beijing Weiying Technology Co., Ltd. project. In addition, it helped IMAX China Holding, Inc. ("**IMAX China**") to successfully list on the Hong Kong Stock Exchange and sell all of the IMAX China shares held afterward. Beyond this, China Media Management is also actively assisting with exit arrangements for several projects, including Star China.

REVIEW OF INVESTMENTS (CONTINUED)

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

In April 2010, the Fund agreed to make a capital investment of RMB200 million by installment in China Media Investment. From June 2010 through 31 December 2018, the Fund has made successive capital injections into China Media Investment for a cumulative actual investment of RMB158.66 million (equivalent to US$24.76 million), representing 79.33% of the total investment of RMB200 million committed by the Fund.

Through the end of December 2018, the Fund has received a total actual investment return of RMB201 million from China Media Investment, representing approximately 127% of the cumulative actual amount invested by the Fund.

As of the end of 2018, the carrying value of the Fund's interest in China Media Investment was US$41.49 million, representing a decrease of 14.73% from the value at the end of last year of US$48.66 million.

As of the end of 2018, the unaudited net asset value of China Media Investment was RMB2.85 billion, representing a decrease of 3.30% compared to the end of last year.

By the end of December 2018, China Media Investment had completed a full exit from four projects, while continuing to hold three projects, namely Star China, Shanghai Jade East Propagation Co., Ltd. ("**Jade East**") and Shanghai Oriental DreamWorks Co., Ltd. ("**Oriental DreamWorks**"). Of these, Shanghai Canxing Culture Media Co., Ltd., the domestic operating entity of Star China, has submitted the materials to apply for an IPO with the CSRC by the end of December 2018, and its application is in queue for review. Furthermore, China Media Investment is currently in negotiations to exit from the Jade East and Oriental DreaWorks projects.

REVIEW OF INVESTMENTS (CONTINUED)

NBA China, L.P. ("NBA China") is a limited liability partnership incorporated in the Cayman Islands in 2007. NBA China conducts all of the NBA's businesses in the Greater China Region, including television broadcasting rights, advertising, sponsorships, events, digital media, and merchandising, among other new businesses. The original investment by the Fund in 2008 was US$23 million, representing a 1% partnership interest in NBA China. The Fund subsequently received partial returns of capital from NBA China in 2013, 2016 and 2017, respectively, for a total amount of US$23 million, representing a full recovery of the capital invested in NBA China by the Fund. As of 31 December 2018, the Fund held a 1% partnership interest in NBA China. The Fund received cash distributions from NBA China of US$1.16 million and US$1.44 million in January 2018 and January 2019, respectively.

As of the end of 2018, the carrying value of the Fund's interest in NBA China was US$15.04 million, representing a decrease of 53.78% from the value at the end of last year of US$32.54 million. The Fund's loss attributable to its investment in NBA China for 2018 was US$16.34 million, as compared to a gain for last year.

In January 2018, NBA China and the Ministry of Education of China jointly announced that the Ministry of Education would hold the "National Campus Basketball Championship and Jr. NBA World Championship China Trials" under the auspices of the NBA. After a total of 105 games in four divisions, the national final of the 2018 National Campus Basketball Championship hosted by the Ministry of Education was held in Tianjin in May 2018, and ten male and ten female players were selected for the Chinese Campus Basketball Team by a group of experts from the Campus Basketball League and the NBA. The team travelled to Orlando, Florida, in the US, in August 2018 to participate in the "Jr. NBA World Championship", the first global youth basketball event hosted by the NBA, and the team played well in the tournament.

NBA China and the Hongkun Group jointly announced that the first NBA-themed multi-functional building in the world, the NBA Center, was officially opened on 30 April 2018 in Wuqing, Tianjin. The NBA Center covers an area of approximately 12,000 square metres and is designed to provide fans with an excellent opportunity to experience the NBA through a variety of activities. This unprecedented multi-storey building provides fans with NBA-standard basketball courts, a basketball-themed entertainment and interactive gaming centre for children, and an NBA store.

In June 2018, the second NBA-themed home entertainment centre, NBA Playzone, opened in Beijing.

In November 2018, the NBA and ByteDance announced a multi-year global partnership to deliver NBA contents, including daily NBA game highlights, behind-the-scenes videos, photos, and news throughout the regular season, NBA All-Star, the NBA Playoffs, and the Finals. ByteDance will leverage its artificial intelligence technology, which enables intelligent discovery, to deliver NBA contents to fans in China through its Toutiao, Xigua and Douyin video platforms.

REVIEW OF INVESTMENTS (CONTINUED)

In December 2018, the NBA and Migu, a subsidiary of Hong Kong-listed China Mobile that provides digital content products and services, announced a multi-year partnership that will deliver extensive NBA contents to fans in Mainland China, Hong Kong and Macau, across Migu and China Mobile's family of media brands. As the Official Telecom Carrier Immersion Platform of the NBA in China, Migu will provide fans in Mainland China with NBA game highlights, behind-the-scenes videos, original programming, and classic NBA games. The NBA and Migu will work together to explore new technologies in order to enhance the viewing experience, including 4K resolution and virtual reality. Both parties will also cooperate to grow the Jr. NBA and to promote the development of youth basketball in China.

In December 2018, NBA China announced that it will begin to launch a series of NBA-themed cultural venues nationwide — specifically, NBA Hoop Parks, which aim to attract basketball fans and provide them with professional sporting venues and immersive NBA sporting and cultural experiences. NBA China has completed the construction of the first NBA Hoop Park in Meixi Lake, Changsha, with its long-term partner, Leyun Sports. The park officially opened on 8 December 2018.

Unibank Media Group Inc. ("Unibank Media") was established in Beijing in 2011 as an operating entity following a merger and reorganisation, and is principally engaged in commercial advertising through its video display network in banking service outlets across China. The Fund made a total investment of RMB75 million (equivalent to US$10.98 million) in one of its predecessors, Inbank Media (China) Co., Ltd. ("**Inbank Media**"), in June 2009 and February 2010, and held a 14.51% equity interest in Inbank Media. After the completion of the reorganisation as well as a capital increase by Inbank Media in 2011, the Fund held a 7.62% equity interest in Unibank Media (Note: The Fund has made a contingent commitment to transfer a 1.14% stake in Unibank Media to the management of Unibank Media, as an incentive earned upon completion of an IPO or sale of the business. The total incentive to the management of Unibank Media is a 15% stake in Unibank Media, to be transferred by all shareholders, and 1.14% is the Fund's pro rata portion of the incentive. Net of this incentive, the Fund's stake in Unibank Media will be 6.48%). In September 2015, certain existing shareholders of Unibank Media increased their capital position in the company by cash of RMB75 million (and the corresponding valuation of Unibank Media was approximately RMB1,071 million after the capital increase, accounting for 7% of the equity interest of Unibank Media after the capital increase, meaning that the stake of shareholders who did not participate in the capital increase was diluted by approximately 7%, accordingly). After the completion of the capital increase, the Fund's equity interest in Unibank Media was diluted to 7.09%, accordingly, and to 6.03% net of the incentive to management as outlined above.

As of the end of 2018, the carrying value of the Fund's interest in Unibank Media was US$0.89 million, representing a decrease of 52.91% from the value at the end of last year of US$1.89 million.

No substantial improvement was recorded for the business of Unibank Media. Unibank Media increased its direct sales expenses in an attempt to obtain more business, but this strategy ultimately led to a greater operating loss in 2018, despite reductions in most other costs and expenses.

REVIEW OF INVESTMENTS (CONTINUED)

Besttone Holding Co., Ltd. ("Besttone") was established in Shanghai in 1992 and listed on the Shanghai Stock Exchange in 1993. Besttone, formerly known as China Satcom Guomai Communications Co., Ltd., underwent a major reorganisation in 2012 and adopted a new structure with business travel reservations, hotel operations and management, and reward points operations as its major lines of business. In order to elevate the competitiveness of Besttone, its controlling shareholder, China Telecommunications Corporation ("**CTC**"), initiated another reorganisation in 2017 with the addition of several businesses related to value-added services, Internet and entertainment. Furthermore, with resources and support from CTC, Besttone can collaborate with CTC on the creation of an interrelated business ecosystem, and tap the energy and creativity enhanced by its mixed-ownership form. In March 2017, the Fund completed the replacement of Besttone's A shares at a price of RMB14.45 per share for an aggregate amount of RMB104 million (equivalent to US$15.10 million), consisting of 7.21 million replacement shares, with its 5.37% equity interest in Esurfing Media Co., Ltd., representing 0.907% of the issued share capital of Besttone as of 31 December 2018. The replacement shares had a lock-up period of one year, which expired in March 2018. In July 2018, the Fund received a cash dividend of RMB0.72 million from Besttone for 2017.

As of the end of 2018, the carrying value of the Fund's interest in Besttone was US$10.07 million, representing a decrease of 34.65% from the value at the end of last year of US$15.41 million.

On 31 October 2018, Besttone announced that its unaudited net profit for the first three quarters of 2018 was RMB185 million, down 21.37% (adjusted) as compared to the same period last year, due primarily to the business development cycle for certain segments of the company.

On 21 June 2018, Besttone and Chineseall Digital Publishing Group Co., Ltd. ("**Chineseall**") entered into a strategic cooperation framework agreement, which covers the fields of video, games, publishing, animation, business travel, hotels, reward points, and copyright, etc. Chineseall is one of the largest licensed digital content providers in China, with a strategic advantage in areas such as intellectual property resources in the upstream pan-entertainment production chain.

REVIEW OF INVESTMENTS (CONTINUED)

Oriental Pearl Media Co., Ltd. ("Oriental Pearl") is a new operating entity formed following a merger and reorganisation with BesTV New Media Co., Ltd. ("**BesTV**"), a listed company under Shanghai Media Group Ltd. ("**SMG**"), and Shanghai Oriental Pearl (Group) Co., Ltd., formerly also a listed company, along with the injection of relevant advertising, content production and new media assets by SMG, its largest shareholder, before being renamed to Oriental Pearl from BesTV. The restructuring was completed in June 2015. Oriental Pearl will push forward with the integration and development of traditional and emerging media and become the sole resource consolidation and listing platform for SMG, as well as an all-media and whole-industry chain platform company, spanning content production, cloud services and value-added advertising services. At the same time, Oriental Pearl will draw on its strong media business as a foundation for growth, adopt the Internet TV business as a strategic point of entry, convert its audiences to users, cash in on data traffic, build an Internet media-based ecosystem, business model and system structure, and develop into a new type of Internet media group with the highest market value, communication capability, credibility and influence. In May 2015, the Fund invested RMB120 million (equivalent to US$19.62 million), through a partnership entity, in Oriental Pearl for a beneficial ownership of 3.70 million A shares. There was a 3-year lock-up period for the A shares of Oriental Pearl beneficially owned by the Fund, which expired in May 2018. The Fund beneficially owned a total of 4.81 million A shares of Oriental Pearl, as a result of the receipt of 1.11 million new shares via a capitalisation issue, accounting for 0.14% of the issued share capital of Oriental Pearl as of 31 December 2018. In December 2018, the Fund received a cash dividend of RMB1.29 million declared by Oriental Pearl for 2017.

As of the end of 2018, the carrying value of the Fund's interest in Oriental Pearl was US$6.91 million, representing a decrease of 23.14% from the value at the end of last year of US$8.99 million.

On 29 October 2018, Oriental Pearl announced that its unaudited net profit for the first three quarters of 2018 was RMB1.51 billion, up 49.22% as compared to the same period last year. The reason for the substantial increase in profit was that Oriental Pearl made a substantial provision for the trade receivables of a subsidiary in the same period last year, which in turn significantly reduced profit in that period.

On 27 May 2018, Oriental Pearl announced that it had subscribed for the IPO of Foxconn Industrial Internet Co., Ltd. ("**Foxconn Industrial Internet**") with its own funds in the amount of nearly RMB300 million. Given the issue price of RMB13.77 per share, Oriental Pearl subscribed for approximately 21.79 million shares, with a strategic placement cooperation lock-up period of 36 months. Subsequently, Oriental Pearl announced that it had signed a strategic cooperation agreement with Foxconn Industrial Internet, which primarily covers cooperation related to the Internet of Things (IoT) for intelligent cities and overseas projects.

On 8 December 2018, Oriental Pearl entered into a strategic cooperation agreement with Migu, which primarily covers cooperation related to ultra-high definition content, 5th generation mobile networks (5G), key products, provincial corporate business and overseas market expansion.

REVIEW OF INVESTMENTS (CONTINUED)

Yunnan Jinlanmei International Travel Investment Development Co., Ltd. ("Jinlanmei Travel") was established in Mengla County, Xishuangbanna Dai Autonomous Prefecture, Yunnan in 2016, with registered capital of RMB100 million. Based in Yunnan, Jinlanmei Travel will seek to establish a global presence and engage broadly in the operation of tourism and shipping within the territorial waters of the Lancang/Mekong River. Jinlanmei Travel was established jointly by the Fund and Shanghai-listed Yunnan Metropolitan Real Estate Development Co., Ltd., among others, with stakes of 20% and 35%, respectively. In October 2016, the Fund completed the first capital contribution of RMB10 million (equivalent to US$1.49 million) to Jinlanmei Travel, with the remaining RMB10 million of capital to be injected according to the development progress of Jinlanmei Travel.

As of the end of 2018, the carrying value of the Fund's interest in Jinlanmei Travel was US$1.11 million, representing a decrease of 21.83% from the value at the end of last year of US$1.42 million.

In 2018, Jinlanmei Travel continued to move forward at a steady pace with the construction of a self-managed fleet, while accelerating the construction of 20/40-seat cruise ships. Presently, the assembly of a 20-seat cruise ship has been completed, as has the decoration and installation of a 40-seat cruise ship, and both are expected to be delivered for operation in 2019. Jinlanmei Travel is also actively engaged in sales and promotions, and has successively completed the bidding and construction of its website, as well as efforts to improve the design of its tourism products. At present, by utilising the Jinghong Maritime Work Ship Terminal, the company is also building a cruise ship terminal on the upstream shoreline, to be used as the home base for the self-managed fleet, while it operates many other businesses to generate income.

Rong Bao Zhai Culture Co., Ltd. ("Rong Bao Zhai Culture") was established in Beijing in December 2015. Its main businesses include the sale of art supplies, handicrafts, calligraphy artwork, framed calligraphy artwork, and carving artwork, as well as the sponsorship of art exhibits and cultural/artistic exchange activities. In addition, Rong Bao Zhai Culture will be an important business development platform for its controlling shareholder, Rong Bao Zhai, in the future. The Fund agreed to advance cash of RMB300 million in total to Rong Bao Zhai Culture for a period of 5 years, with the right to convert the loan into an equity interest in Rong Bao Zhai Culture during the term of the loan, subject to the fulfillment of certain precedent conditions. In December 2016 and April 2017, the Fund disbursed RMB200 million (equivalent to US$28.86 million) and RMB100 million (equivalent to US$14.50 million), respectively, amounting to RMB300 million (equivalent to US$43.36 million) in aggregate.

As of the end of 2018, the carrying value of the Fund's debt in Rong Bao Zhai Culture was US$41.42 million, representing an increase of 4.07% over US$39.80 million at the end of last year.

At present, the enterprise restructuring of Rong Bao Zhai Culture is in progress, and its supervisory institution, China Publishing Group, has dispatched a responsible official to monitor both the restructuring and the listing plan. Presently, the state-owned property rights were completed for registration, except for the Hong Kong branch. It is now initiating the plan of reassigning the staff to the listed and non-listed entities.

REVIEW OF INVESTMENTS (CONTINUED)

Qinghai Provincial Qinghai Lake Tourism Group Co., Ltd. (“Qinghai Lake Tourism”) was established in Xining, Qinghai in 2008. It is a tourism operator with a focus on Qinghai Lake, a national 5A-class scenic spot, and is principally engaged in product development, business operations and provision of services related to tourism in Qinghai Lake and the surrounding region. The Fund agreed to advance cash of RMB200 million in total to Qinghai Lake Tourism for a period of 3 years, with the right to convert the loan into an equity interest in Qinghai Lake Tourism during the term of the loan, subject to the fulfillment of certain precedent conditions. In August and September 2017, the Fund disbursed RMB50 million (equivalent to US$7.50 million) and RMB150 million (equivalent to US$22.93 million), respectively, amounting to RMB200 million (equivalent to US$30.43 million) in aggregate.

As of the end of 2018, the carrying value of the Fund’s debt in Qinghai Lake Tourism was US$35.10 million, representing an increase of 14.67% over US$30.61 million at the end of last year.

Currently, Qinghai Lake Tourism is in the process of implementing a restructuring plan under the guidance of intermediaries. In June 2018, the Qinghai Provincial People’s Government officially approved the spin-off of Qinghai Lake Tourism. In September 2018, Qinghai Lake Tourism obtained a new business license. After the spin-off, Qinghai Lake Tourism continues to retain core assets and related businesses, while the newly established company will take over non-operating assets and related personnel. By the fourth quarter of 2018, Qinghai Lake Tourism had reviewed its business operations and put them in order.

The Qinghai Provincial People’s Government explicitly requested the relevant departments to begin asset divestiture and conversion to a joint-stock limited company, and to strive for the listing of Qinghai Lake Tourism as soon as possible. Upon completion of the restructuring plan, and with its principal assets and businesses clearly defined, the Fund will, at appropriate time, consider whether suitable conditions have been achieved for the exercise of conversion rights.

Xi’an Jinpower Electrical Co., Ltd. (“Jinpower Electrical”) was established in Xi’an, Shaanxi in 2001 and is a high technology enterprise principally engaged in the research and development, and production, of intelligent online monitoring systems for transmission lines and substation equipment for the power grid. The stock of Jinpower Electrical was listed for trading on the New Third Board in January 2016. The Fund invested RMB20 million (equivalent to US$3.03 million) in January 2011 and held 2.89 million shares in Jinpower Electrical as of 31 December 2018, representing an equity interest of 4.83%.

As of the end of 2018, the carrying value of the Fund’s interest in Jinpower Electrical was US$0.59 million, representing a decrease of 39.80% from the value at the end of last year of US$0.98 million.

On 27 August 2018, Jinpower Electrical announced that its unaudited net loss for the first half of 2018 was RMB7.77 million (including extraordinary items), compared to a loss of RMB6.17 million for the same period last year.

In 2018, cumulative large-amount bids won by the company totalled RMB32.04 million, representing a substantial increase year-over-year, according to announcements made by Jinpower Electrical. These results can be attributed to favourable economic policies, improvements in the operating environment for online monitoring, and the company’s own competitive position due to its leading technology and self-capacity for innovation.

REVIEW OF INVESTMENTS (CONTINUED)

Anhui Iflytek Venture Capital LLP ("Iflytek Venture Capital") was established in Hefei, Anhui in December 2015, with an investment horizon of 7 to 9 years and with a fund size of RMB602 million. Its major investment targets are industries related to the Internet and applications of artificial intelligence (AI) in China, primarily to areas including education, healthcare, tourism, motor vehicles, Internet of Things (IoT), smart hardware, information security, e-commerce, interactive entertainment, smart toys, robotics and Internet advertising. The general partner and investment manager of Iflytek Venture Capital is Wuhu Iflytek Investment Management LLP, which is responsible for defining and executing the investment strategy for Iflytek Venture Capital, as well as for managing their operations. The Fund has committed to subscribe to an aggregate of RMB90 million by installment, for a 14.95% interest in Iflytek Venture Capital. In December 2016, August 2017, April 2018 and January 2019, the Fund completed capital contributions of RMB36 million (equivalent to US$5.19 million), RMB13.50 million (equivalent to US$2.01 million), RMB13.50 million (equivalent to US$2.15 million) and RMB13.50 million (equivalent to US$1.99 million) to Iflytek Venture Capital, respectively, representing an aggregate of RMB76.50 million (equivalent to US$11.34 million) or 85% of the subscription amount committed by the Fund. In addition, the Fund received partial returns of capital from Iflytek Venture Capital in April, June and December 2018, respectively, for a total amount of RMB15.71 million.

As of the end of 2018, the carrying value of the Fund's interest in Iflytek Venture Capital was US$8.31 million, representing an increase of 17.71% over US$7.06 million at the end of last year.

By the end of December 2018, Iflytek Venture Capital had completed investments in nineteen projects. During the year, Iflytek Venture Capital had completed six new investments. In addition, a project held by Iflytek Venture Capital has submitted its IPO application materials to the CSRC and is in queue for review, while another two projects have initiated their applications for an H share IPO. Furthermore, one other project is engaged in pre-listing tutoring and intends to list on the growth enterprises market.

Iflytek Co., Ltd. ("Iflytek") was established in 1999 and is headquartered in Hefei, Anhui. It was listed on the SME board of the Shenzhen Stock Exchange in May 2008. It is a national key software enterprise dedicated to the research of intelligent speech, language technologies, and AI technologies; the development of software and chip products; the provision of speech information services; and the integration of e-government systems. During the period of November to December 2016, the Fund acquired 4.54 million A shares of Iflytek at an average price of RMB19.09 (adjusted) per share on the secondary stock market of Mainland China with an aggregate invested amount of RMB130 million (equivalent to US$18.83 million). In May 2018, the Fund received 2.27 million new shares via a capitalisation issue as well as a cash dividend (net of tax) of RMB0.44 million from Iflytek for 2017. As of 31 December 2018, the Fund held a total of 6.81 million A shares of Iflytek, accounting for 0.325% of the issued share capital of Iflytek.

As of the end of 2018, the carrying value of the Fund's interest in Iflytek was US$24.42 million, representing a decrease of 40.51% from the value at the end of last year of US$41.05 million.

On 27 February 2019, Iflytek pre-announced that its unaudited net profit for 2018 was RMB529 million, up 21.62% year-over-year. Although the sales revenue grew significantly in 2018, with a strategic window of opportunity for AI industry, Iflytek has continued to increase its investments in the research and development of AI-related fields, the construction of an AI open platform ecosystem and the application of AI to the fields of education, the government and judiciary, medical care and intelligent cities. As a result, operating expenses of the company increased accordingly, which restrained growth in current after-tax profit, but also laid a solid foundation for securing Iflytek's position as an industry leader and for ensuring its sustainable development and long-term profitability in the future.

REVIEW OF INVESTMENTS (CONTINUED)

Ningbo Meishan Free Trade Port Area Jiangmen Venture Capital LLP (the "Jiangmen Ventures Fund") was established in Ningbo, Zhejiang in September 2016, with an investment horizon of 5 to 7 years and with a total fund subscription amount of RMB410 million. Its major investment targets are chiefly early-stage business ventures related to machine intelligence, Internet of Things (IoT), natural user interface, and enterprise computing. The general partner and investment manager of the Jiangmen Ventures Fund is Jiangmen Capital Management (Beijing) Co., Ltd., which is responsible for defining and executing the investment strategy for the Jiangmen Ventures Fund, as well as for managing their operations. The Fund completed a capital contribution of RMB30 million (equivalent to US$4.74 million) in January 2018, representing 7.32% of the total fund subscription amount.

As of the end of 2018, the carrying value of the Fund's interest in the Jiangmen Ventures Fund was US$5.07 million.

By the end of December 2018, the Jiangmen Ventures Fund had completed investments in thirteen projects for a total of RMB153 million. Of these, investments amounting to RMB96 million were completed during the year, including seven new projects. Additional investments were made in two existing projects, while anti-dilutive investments were made in two others. Another five existing projects completed new rounds of financing and their respective valuations have increased significantly, as compared to the previous round.

Beijing CAS Cambricon Technology Co., Ltd. ("Cambricon") was established in 2016 in Beijing. The company grew out of a research and development project of the Smart Chips Research Group at the Institute of Computing Technology, Chinese Academy of Sciences, and is a high technology company that focuses on the research, development and design of AI chips. In June 2018, the Fund, via a partnership entity, invested approximately RMB38 million (equivalent to US$5.94 million) for a 0.246% beneficial equity interest in Cambricon.

As of the end of 2018, the carrying value of the Fund's interest in Cambricon was US$5.54 million.

The server chip MLU100 from Cambricon was successfully taped out at the end of April 2018 and adopted by the server platform ThinkSystem SR650 by Lenovo and the cloud server Phaneron by Sugon. The calculation speed and energy efficiency of the chip are reported to be comparable to the Nvidia V100.

In August 2018, the Huawei Kirin 980 chip, equipped with Cambricon's dual-core 1H neural processing unit (NPU), was announced.

Pony AI Inc. ("Pony AI") was established in Silicon Valley, the United States, in December 2016 and is a research and development company that focuses on technology solutions for autonomous driving. In July 2018, the Fund invested US$8 million for a 0.889% equity interest in Pony AI.

As of the end of 2018, the carrying value of the Fund's interest in Pony was US$8 million.

Pony AI has succeeded in developing a complete autonomous driving system, and entered into a strategic co-operation framework agreement with Guangzhou Automobile Group Co., Ltd. in February 2018, making it one of two autonomous driving companies in China that have entered into comprehensive strategic co-operation agreements with China's "Big 4" car manufacturers.

REVIEW OF INVESTMENTS (CONTINUED)

In the second half of 2018, Pony AI launched its third-generation autonomous driving software and hardware system, named PonyAlpha, and released China's first commercialised autonomous driving team based on that system platform. By the end of 2018, Pony AI announced the launch of P2P dynamic connection services and an autonomous driving taxi APP, both of which are currently undergoing testing in Nansha, Guangzhou.

According to the Autonomous Vehicle Disengagement Report 2018 disclosed by the California Department of Motor Vehicles of the United States, Alphabet's Waymo, General Motors' Cruise and Zoox claimed the top three rankings in the "Disengagement Rate per Ride" category (an autonomous driving ranking), while Pony AI ranked fifth (as the top-listed Chinese company) and Baidu ranked seventh.

Shenzhen Geesun Intelligent Technology Co., Ltd. ("Geesun Intelligent") was established in Shenzhen, Guangdong in 2006 and is a leading professional manufacturer of production equipment and automated production lines for lithium ion batteries and super capacitors in China. Its name was changed to Shenzhen Geesun Zhiyun Technology Co., Ltd. in April 2015 as a result of an acquisition and capital increase, and was further changed to its present name as a result of a transfer of its entire equity interest by its then controlling shareholder to CAS Investment Management Co., Ltd., then the second largest shareholder, in October 2016. The Fund invested RMB20 million (equivalent to US$2.93 million) in May 2010, and the Fund's equity interest in Geesun Intelligent as of 31 December 2018 was diluted from 9.68% to 6.78%, subsequent to a capital increase completed in January 2018. The Fund's equity interest in Geesun Intelligent was further diluted from 6.78% to 5.32%, subsequent to an employee share incentive scheme completed in January 2019.

As of the end of 2018, the carrying value of the Fund's interest in Geesun Intelligent was US$5.23 million, representing a decrease of 20.64% from the value at the end of last year of US$6.59 million.

Benefiting from industry-wide trends of production capacity expansion and product localisation for lithium ion batteries, the lithium ion battery equipment industry has continued to improve. However, the sales revenue of the company recorded a decline. Product development and delivery could not meet customer demand, resulting in a decline in the numbers of orders. Geesun Intelligent recorded an unaudited net profit of RMB8.70 million for 2018, down 67.64% year-over-year, and one reason for the decrease in net profit was a rapid growth in costs and expenses.

Jiangsu Huaer Quartz Materials Co., Ltd. ("Jiangsu Huaer") was established in Yangzhou, Jiangsu and is principally engaged in the research and development, and production, of high purity silica crucibles. Jiangsu Huaer is a manufacturer producing silica crucibles with comprehensive specifications in China, and has the capability to produce 28-inch silica crucibles, or larger, on a vast scale. The silica crucible products are currently consumable auxiliary equipment required to produce single crystalline silicon ingots, which are used in turn to produce single crystalline silicon solar cells and semiconductor chips. The Fund invested RMB15 million (equivalent to US$2.23 million) in September 2010 for a 7.50% equity interest in Jiangsu Huaer.

As of the end of 2018, the carrying value of the Fund's interest in Jiangsu Huaer was US$0.24 million, representing a decrease of 68.00% from the value at the end of last year of US$0.75 million.

REVIEW OF INVESTMENTS (CONTINUED)

Since a new photovoltaic policy was introduced on 31 May 2018, price subsidies for electricity have been reduced and the construction of photovoltaic power plants has slowed. As a result, the company's customers have successively reduced production, which in turn has reduced demand for single crystalline silicon electric cells and silica crucibles. Meanwhile, due to past-due trade receivables, turnover of Jiangsu Huaer's working capital has been slow and its financing costs have remained high, greatly affecting its normal business production and operations. Presently, Jiangsu Huaer continues to pursue recovery of past-due trade receivables. Certain customers have made repayments by installment, resulting in some progress on the recovery of past-due trade receivables. At the same time, Jiangsu Huaer has strengthened its export business, expanded its partnerships with small and medium-sized enterprises, and actively renegotiated with suppliers in order to reduce production costs, while also improving communication with its customers in order to minimise any negative impact from the new photovoltaic policy. However, past-due trade receivables remain considerable, leading to tight liquidity, and thereby limiting the number of orders the company can receive. As such, Jiangsu Huaer saw no improvement in its operating results in 2018.

Hwagain Group Co., Ltd. ("Hwagain") was formed by the merger of two paper manufacturers located in Nanning, Guangxi in 1998. It is principally engaged in the research and development, production, and sale of high quality printing paper and tissue paper. The Fund invested RMB119.99 million (equivalent to US$19.00 million) in January 2012 for a 7.10% equity interest in Hwagain.

As of the end of 2018, the carrying value of the Fund's interest in Hwagain was US$12.59 million, representing an increase of 15.29% over US$10.92 million at the end of last year.

Hwagain achieved an unaudited net profit of RMB133 million for 2018, up 116.91% year-over-year. The price of paper has continued to see an increase since the beginning of 2017, and the company's operating profit has maintained an upward trend.

Wuhan Rixin Technology Co., Ltd. ("Wuhan Rixin") was established in Wuhan, Hubei in 2001 and is a state-accredited high technology enterprise engaged in the design, production and installation of solar modules and Building Integrated Photovoltaic (BIPV) products, as well as in the operation, maintenance and management of solar powered electric systems. The stock of Wuhan Rixin was listed for trading on the New Third Board in February 2016. The Fund invested RMB15 million (equivalent to US$2.20 million) in July 2009 and held 3.30 million shares in Wuhan Rixin as of 31 December 2018, representing an equity interest of 4.24%.

As of the end of 2018, the carrying value of the Fund's interest in Wuhan Rixin was US$1.66 million, representing a decrease of 78.85% from the value at the end of last year of US$7.85 million.

On 27 August 2018, Wuhan Rixin announced that its unaudited net loss for the first half of 2018 was RMB16.23 million (including extraordinary items), as compared to a net profit of RMB2.12 million for the same period last year. The loss was mainly attributable to a deceleration in the pace of development, construction and sales under the impact of the new photovoltaic policy introduced on 31 May 2018.

REVIEW OF INVESTMENTS (CONTINUED)

Guangxi Xinhua Preschool Education Investment Corporation Limited ("Xinhua Preschool Education") was established in Nanning, Guangxi in 2014, with registered capital of RMB300 million. Xinhua Preschool Education is based in Guangxi and is dedicated to investing in the preschool education sector, as well as supplying cultural and educational products. Xinhua Preschool Education was jointly established by the Fund and Guangxi Xinhua Bookstore Group Share Corporation Limited, with stakes of 30% and 70%, respectively. In December 2014, the Fund completed the first capital contribution of RMB30 million (equivalent to US$4.90 million), with the remaining RMB60 million of capital to be disbursed according to the development progress of Xinhua Preschool Education.

As of the end of 2018, the carrying value of the Fund's interest in Xinhua Preschool Education was US$5.09 million, representing a decrease of 33.03% from the value at the end of last year of US$7.60 million.

Xinhua Preschool Education sustained an unaudited net loss of RMB5.14 million for 2018, which was deeper than for last year.

Xinhua Preschool Education is currently promoting the construction of the projects of Xinhua Kindergarten in Hanlin Yujing, Nanning; Xinhua Kindergarten in Port District, Fangchenggang; Xinhua Kindergarten in Xingbin District, Laibin; Xinhua Kindergarten in Pubei County, Qinzhou; Xinhua Kindergarten in Gangbei District, Guigang, etc. It plans to take further action to expand the number and size of schools, increase enrollment, improve the level of young children's care and education, strengthen day-to-day management, and strive to return to profitability.

Liaoning Zhenlong Native Produce Holding Company Ltd. ("Liaoning Zhenlong") was established in Fuxin, Liaoning in 2000. It is a joint-stock company with an export license, principally engaged in the acquisition, processing and sale of pumpkin seeds and other nut products. The Fund invested a total of RMB19.20 million (equivalent to US$2.97 million) in August 2011 for a 2% equity interest in Liaoning Zhenlong.

As of the end of 2018, the carrying value of the Fund's interest in Liaoning Zhenlong was nil, same as at the end of last year.

Since the CSRC made a decision to terminate its review of Liaoning Zhenlong's IPO application in June 2015, the Fund has duly appointed a legal agency to apply for arbitration with respect to the Fund's exit from this investment, according to the relevant provisions of law. On 11 December 2017, the China International Economic and Trade Arbitration Commission made a decision in favour of some allegations made by the Fund and ruled that Liaoning Zhenlong was required to pay a total of RMB38.02 million, including principal, interest on overdue repurchases, legal fees and arbitration fees. As Liaoning Zhenlong failed to pay the amount due within 30 days from the date of the ruling, Fuxin Intermediate People's Court ("**Fuxin Court**") accepted an application by the Fund to restrict the departure and high-value consumption of Mr. HUANG Yue, chairman of Liaoning Zhenlong. Since no additional assets that can be used to make payment under the ruling have been identified, the Fuxin Court has concluded enforcement procedures. However, the case can be resumed at any time if such assets are later identified. The Fund will continue to monitor the situation and seek other measures to protect its rights and interests.

REVIEW OF INVESTMENTS (CONTINUED)

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

As of the end of 2018, the carrying value of the Fund's interest in NTong was nil, same as at the end of last year.

NTong lost contact with Mr. GUAN Peiyi, chairman of the board, on 8 September 2014. At the same time, NTong discovered through an internal financial examination that a vast amount of cash, as well as a portion of the company's books and records, could not be located. The board of directors of NTong reported the matter to the public security authorities and passed a resolution to dismiss Mr. GUAN Peiyi from his duties as chairman of the board.

NTong has filed for bankruptcy in the People's Court of Haidian District, Beijing ("**Haidian Court**") and some restructuring proposals were submitted by interested parties to the court in which the reorganisation might take place. The management of NTong, the investors and the creditors entered into negotiations regarding the proposals. As the restructuring proposals failed to satisfy the Fund's interests, the Fund voted against them all. On 30 April 2018, the Haidian Court issued a ruling that the investors and creditors must accept the reorganisation based on the restructuring proposal submitted in March 2018. As a result, the Fund expects that its interests in NTong will be at risk.

On 7 December 2018, the bankruptcy administrator of NTong held a meeting in Beijing and resolved to set up a task force to investigate the legal issues of, and to seek asset recovery from, Mr. GUAN Peiyi, the original authorised representative of NTong.

Xinjiang Chengtian Agriculture & Animal Husbandry Development Co., Ltd. ("Chengtian") was established in Yuli County of Bayingolin Mongol Autonomous Prefecture, Xinjiang in 2007. Chengtian's current principal businesses include acquisition of unginned cotton and cottonseed; processing of unginned cotton; wholesale and retail sales of ginned cotton, cotton by-products, cotton linter and cottonseed; processing and sale of cottonseed oil, cottonseed husk, cottonseed meal and cottonseed protein; and cultivation and sale of cotton, jujube, fruit, animal forage and other crops. The Fund invested RMB30 million (equivalent to US$4.73 million) in July 2012 for a 6.25% equity interest in Chengtian.

As of the end of 2018, the carrying value of the Fund's interest in Chengtian was US$4.37 million, representing an increase of 12.05% over US$3.90 million at the end of last year.

REVIEW OF INVESTMENTS (CONTINUED)

The Fund and the controlling shareholder of Chengtian entered into an agreement on 23 September 2013 whereby the Fund agreed to sell, and the controlling shareholder agreed to purchase, the Fund's entire 6.25% interest in Chengtian. Total consideration for the disposal was RMB35.79 million, payable in three installments, with the last to be settled on or before 31 August 2014. After the Fund had received the consideration in full, the Fund was to complete the transfer of its entire equity interest in Chengtian to the controlling shareholder. The Fund received the first installment of RMB12.53 million in October 2013 and the second installment of RMB12.78 million in March 2014. Due to various reasons, the final payment for the repurchase of the equity interest, originally payable on 31 August 2014, could not be made by the controlling shareholder of Chengtian on schedule.

Based on successive negotiations between the Fund and the controlling shareholder of Chengtian, the latter returned RMB0.2 million and RMB4.49 million in April 2016 and May 2018, respectively. Thus far, the controlling shareholder of Chengtian has returned the entire investment principal of RMB30 million to the Fund.

In early January 2018, the Fund and another investor jointly appointed a legal representative who filed for arbitration with Chengtian and its authorised representative by the Beijing Arbitration Commission. On 17 May 2018, after receiving the balance of the investment principal from the controlling shareholder of Chengtian, the Fund and the controlling shareholder of Chengtian reached an accommodation in the arbitration court of the Beijing Arbitration Commission, which issued a legal conciliation statement according to the supplemental agreement signed by the both parties. Under the terms of the agreement, with respect to the return of investment and default interest of RMB11.54 million, the Fund has the right to require the controlling shareholder of Chengtian to transfer a certain stake in Xinjiang Chengtian Seeds Industry Technology Co., Ltd. ("**Chengtian Seeds**") at a specific price to the Fund to offset the debt. However, if the Fund does not exercise its conversion rights, the controlling shareholder of Chengtian will have an obligation to make payment immediately after the 740th day from the date of the issuance of the conciliation statement, plus interest during the period, or the Fund may petition the court for enforcement of the judgment, including the accrued interest at the default rate.

Thus far, the repurchase of an equity interest in Chengtian has come to an end for now. The Fund will decide whether to pursue a cash recovery or to convert the outstanding amount into the shares, according to the development progress of Chengtian Seeds in the coming two years.

PROSPECTS

The global economy is likely to face slower growth in 2019 and the US-China trade disputes will remain the primary source of uncertainty. Growth of the US economy may also face some changes, as the Fed's rate-hike cycle approaches an end, and as the impact of the US fiscal and trade deficits could possibly weaken support for a strong US dollar. Economic growth of the Eurozone is expected to slow, while Japan's economy is expected to continue on a path of recovery, propelled by domestic demand. In 2019, China's economy will be challenged by a number of factors, including a mixed global environment, a further slowdown of domestic economic growth due to different levels of weaker foreign trade, business investment and domestic consumption, potential risks arising from high leverage, and finally the negative effects of a narrowing trade surplus due to the US-China tariff war. All things considered, China's macro economy may continue to face downward pressure in 2019. Given that China's economic growth in 2019 continues to show signs of slowing and its economic restructuring is in a critical period, it is expected that the operating results of the investment projects (mainly operating in China) held by the Fund will be impacted to a certain degree.

The Central Economic Working Conference convened in December 2018 has identified the primary objective for China's economy in 2019 — making progress while ensuring stability. The Central Government has identified seven key tasks to be carried out in 2019, including: advancing quality development of the manufacturing industry, promoting the formation of a strong domestic market, implementing a rural revitalisation strategy, facilitating coordinated regional development, accelerating economic system reform, promoting greater openness in the economy, and strengthening the protection and improvement of people's livelihoods. Given that China's economy shows both resilience and great potential, its long-term economic outlook for prosperity has not changed and the potential for investment demand remains strong. As an example, the AI industry and new-type infrastructure construction will continue to receive greater support from government policies, as well as more attention from capital markets. With the advent of the big data era, along with improvements in algorithms and enhancements in the accuracy of unsupervised learning, AI may enter a period of rapid growth in which "big data + AI" will profoundly change the structure of traditional industries. It is here that the Fund will continue to seek out the best opportunities for investment.

BUSINESS STRATEGY AND INVESTMENT RESTRICTIONS

The Fund is an investment company listed on the Hong Kong Stock Exchange. Its main business is to invest directly in high quality unlisted enterprises in China, as well as in China-concept shares listed on domestic and overseas markets. Our strategies are: to primarily invest in high quality and mature investment projects while also seizing good opportunities in emerging industries; to invest in outstanding and leading listed enterprises and cooperate with them so as to explore quality unlisted projects in their respective industry supply chains; to closely monitor changes in global financial conditions and in China's economic policies for diverse investments; to continue to view industry developments from a broad perspective and avoid the risk of investing in overheated sectors, to focus on relatively regulated industries and relatively large projects, and to pay more attention to key projects with government support and with the backing of state-owned enterprises or listed companies; to constantly optimise the investment portfolio and to manage the level of risk; to avoid blindly engaging in price competition when bidding on investment projects; and to fulfill our goal of long-term capital preservation and appreciation. Our future investment focus is on the financial industry with an emphasis on the insurance sector, on emerging technology industries featuring AI, on great cultural industry with an emphasis on culture and tourism, and on great healthcare industry with an emphasis on medicine and healthcare. We continue to explore the means for proper participation in investments in potential listed companies, as guided by our direct investment concepts.

For investment restrictions of the Fund, please refer to the prospectus dated 15 July 1993 issued by the Fund which is available on the Fund's website.

KEY RISK FACTORS

The Fund faces various risks and uncertainties in its operations. Taking into account the operations of the Fund, the key risks and uncertainties considered to be faced by the Fund are listed below. Please note that in addition to those listed below, the Fund may also be exposed to other risks and uncertainties.

Economic Risk

The Fund invests in enterprises with businesses or incomes derived from China. The businesses, financial conditions, operational results and prospects of Chinese enterprises are largely subject to the macroeconomic development of China. As China is still an emerging economy, its economy is different from developed economies in many respects, including but not limited to the government regulations, the models of economic growth, foreign exchange controls and the allocation of resources.

Market Competition Risk

The main business of the Fund is equity investments. With a booming private equity investment market in China, more and more investment companies or funds in the industry are entering the market, which results in keener competition among investment institutions for potential investment targets. The Fund is also facing increasingly intense competition in the industry and the market challenges of rising prices of investment targets.

KEY RISK FACTORS (CONTINUED)

Operation Risk

In evaluating and screening investment projects, the Fund must select relevant investment tools, consider the investment size, and adapt its investment strategies in different stages of an enterprise. This involves many complicated processes and factors. Although the Fund strives to consider and manage risk with skill and experience, the potential risks and uncertainties in investment analysis cannot be fully mitigated.

The enterprises in which the Fund has invested face various risks in their businesses and operations, including changes in the market environment of the industry, economic recession, incorrect operational decisions (such as over expansion or premature diversification), improper internal controls, the failure of management to meet expectations, and unstable management teams. The risks from the businesses and operations of the enterprises in which the Fund has invested will have an effect on the investment time cost and investment returns of the Fund.

In addition, according to the relevant listing rules of the Hong Kong Stock Exchange, the Fund cannot, either on its own or in conjunction with any core connected parties, take legal or effective management control of enterprises in which the Fund has invested, and furthermore cannot own or control more than 30% of the voting rights in any one enterprise or body. As a result, the Fund may act only as a strategic investor in an enterprise, and cannot actively participate in the management or operations of the enterprise. Although the Fund strives to safeguard its rights according to applicable laws and regulations, it may incur investment losses if the controlling shareholder or management of an enterprise intentionally deceives or conceals significant matters related to the operations of the enterprise.

Stock Market Risk

The Fund currently holds a large quantity of stocks of listed companies and the Fund may also allocate a portion of its assets to the secondary stock market. The stock market is subject to political, economic, social and other macro factors, which will result in the fluctuation of stock prices. As the stocks of listed companies held by the Fund are marked to market, such fluctuations will affect the value of the listed stocks held by the Fund and will cause fluctuation in the net asset value of the Fund.

Legal Uncertainty

The enterprises and assets in which the Fund has invested are mainly located in China and are subject to the laws and regulations of China. China's legal system is based on written statutes. Prior court decisions may be cited as reference but have limited precedential value. In addition, since the late 1970s, with a view towards developing a comprehensive system of commercial law to deal with economic matters, the Central Government has promulgated relevant laws and regulations on the issuance and trading of securities, shareholders' rights, foreign investment, corporate organisation and governance, commerce, taxation, and trade, among other topics. However, as these laws and regulations are relatively new and the external environment continues to evolve, the effect of these laws and regulations on the rights and obligations of relevant institutions, enterprises and individuals may involve uncertainty. As a result, the legal protections for assets in China available to investors under Chinese commercial laws and regulations may be limited.

KEY RISK FACTORS (CONTINUED)

Policy and Regulatory Risk

The enterprises in which the Fund has invested involve different industries and their value is subject to the development of or changes in government policies, taxation, laws and regulations. The relevant policies, laws and regulations, or relevant interpretations of these statues, may change in the future, which may affect the value of the enterprises in which the Fund has invested.

Exchange Rate Fluctuation Risk

Most of the Fund's investments are located in China where the official currency is the RMB. The conversion rates of RMB against US dollar and other currencies may fluctuate as they are subject to domestic and international political and economic conditions, as well as to the fiscal and monetary policies of governments, among other factors. The businesses, financial conditions, operational results and prospects of the enterprises in which the Fund has invested may be affected by fluctuations in the RMB, which will in turn affect the value of the enterprises in which the Fund has invested. In addition, the Fund is also subject to fluctuations in the RMB exchange rate on currency swaps and conversions, which will eventually affect the net asset value of the Fund reported in US dollars.

Foreign Exchange Control Risk

The RMB is not a freely convertible currency currently. The remittance of profits, dividends, investment principal and returns by overseas investors to jurisdictions outside of China is subject to relevant regulations of China. Generally speaking, overseas investors can remit their profits, dividends, investment principal and returns to jurisdictions outside of China, but they must first obtain approval from the relevant national foreign exchange authorities. The Fund, as an overseas investor, cannot make assurances as to when it can obtain such approval if an application is made, which may limit the ability of the Fund to pay dividends or make other distributions.

SUB-PARTICIPATION SCHEME

In order to strengthen the investment management process, and to align the interests of management and staff with the interests of the Fund in entering new investment projects, the Investment Manager, with the consent of the Fund, has administered the sub-participation scheme (the "**Scheme**") since 2009.

Under the Scheme, the Fund has entered into sub-participation agreements (the "**Agreements**") with certain Directors of the Fund, certain Directors and employees of the Investment Manager, and persons nominated by shareholders of the Investment Manager (collectively the "**Participants**"), with respect to new investments made by the Fund beginning in 2009. Pursuant to the Agreements, the Participants will receive a portion of the return (in the form of dividends, interest, or other distributions or proceeds from realisation) from the Fund's investment in the project company that is proportional to the amount provided by the Participants to the Fund as a percentage of the total Fund's investment in the project company. If the Fund suffers a loss from its investment in the project company, the Participants will correspondingly share a loss in the amount they provided to the Fund on a pro rata basis. The Agreements will terminate upon either the realisation of the investment in the project company by the Fund, or upon the Investment Manager, who provides a guarantee to the Participants for the performance of the Fund's obligations under the Agreements, ceasing to be investment manager of the Fund. In the former case, the Participants shall receive a pro rata portion of the proceeds from disposal of the Fund's interest in the project company. In the latter case, the Participants will receive a pro rata portion of the value of the equity interest in the project company held by the Fund as of 90 days prior to the termination date of the Agreements. The value of the equity interest in the project company will be assessed by an independent valuer appointed jointly by the Fund and the Investment Manager. In addition, the costs and expenses incurred for the preparation and execution of the Agreements, the costs incidental to the implementation of the Scheme, and the relevant portion of the identifiable costs related to the Fund's investment in the project company that corresponds to the amount provided by the Participants to the Fund under the Agreements will be borne by the Investment Manager.

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

SUB-PARTICIPATION SCHEME (CONTINUED)

As of 31 December 2018, details of aggregate amounts actually provided by the Participants and their relative proportion to the investment amounts actually paid by the Fund were as follows:

Name of projects	Original investment amount of the Fund *US$**	Original amounts actually paid by the Participants *US$**	Relative proportion
Unibank Media (1st round capital injection)	6,585,600	129,000	1.959%
Wuhan Rixin	2,195,500	43,900	2.000%
Unibank Media (2nd round capital injection)	4,394,100	87,500	1.991%
China Media Management	676,100	4,500	0.666%
Geesun Intelligent	2,929,500	58,000	1.980%
China Media Investment (1st installment capital contribution)	5,858,300	38,800	0.662%
Jiangsu Huaer	2,226,200	43,800	1.966%
Jinpower Electrical	3,033,500	60,300	1.988%
China Media Investment (2nd installment capital contribution)	953,500	6,100	0.638%
Liaoning Zhenlong	2,974,500	59,000	1.986%
NTong	10,409,700	130,300	1.252%
Hwagain	19,004,900	161,100	0.847%
China Media Investment (3rd installment capital contribution)	1,075,300	6,200	0.575%
China Media Investment (4th installment capital contribution)	4,566,600	26,300	0.577%
Chengtian	4,733,300	74,100	1.566%
China Media Investment (5th installment capital contribution)	484,900	2,800	0.580%
Besttone	15,101,000	117,530	0.778%
China Media Investment (6th installment capital contribution)	5,555,100	32,200	0.579%
China Media Investment (7th installment capital contribution)	3,352,500	18,900	0.562%
China Media Investment (8th installment capital contribution)	2,055,100	11,500	0.559%
China Media Investment (9th installment capital contribution)	859,600	4,830	0.562%
Xinhua Preschool Education (1st installment capital contribution)	4,898,200	28,400	0.580%
Oriental Pearl	19,619,100	255,510	1.302%
JIC Leasing	38,781,800	65,810	0.170%
China Re	19,308,300	41,290	0.214%
Jinlanmei Travel (1st installment capital contribution)	1,489,000	14,180	0.952%
Iflytek	18,827,500	33,500	0.178%
Iflytek Venture Capital (1st installment capital contribution)	5,193,900	9,270	0.178%
Rong Bao Zhai Culture (1st installment capital contribution)	28,855,000	86,790	0.301%
Rong Bao Zhai Culture (2nd installment capital contribution)	14,505,400	43,240	0.298%
Iflytek Venture Capital (2nd installment capital contribution)	2,008,800	3,480	0.178%
Qinghai Lake Tourism (1st installment capital contribution)	7,502,800	9,590	0.128%
Qinghai Lake Tourism (2nd installment capital contribution)	22,927,700	28,800	0.126%
Iflytek Venture Capital (3rd installment capital contribution)	2,146,800	3,480	0.178%
The Jiangmen Ventures Fund	4,741,800	20,470	0.432%
Cambricon	5,940,100	90,480	1.523%
Pony AI	8,000,000	35,680	0.446%

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

SUB-PARTICIPATION SCHEME (CONTINUED)

In addition, as of 31 December 2018, details of the amounts actually paid by some of the Directors of the Fund as well as a Director of the Investment Manager for the Scheme were as follows:

Name of projects	Mr. ZHANG Rizhong (Note 1) *US$*	Mr. WANG Xiaoding (Note 2) *US$*	Mr. TSE Yue Kit (Note 3) *US$*	Mr. LAW Hung Kuen, Janson (Note 4) *US$*	Mr. HONG Xiaoyuan (Note 5) *US$*
Unibank Media (1st round capital injection)	N/A	20,640	1,290	N/A	12,900
Wuhan Rixin	N/A	3,510	1,290	N/A	3,510
Unibank Media (2nd round capital injection)	N/A	6,950	1,290	N/A	6,950
China Media Management	N/A	1,160	30	N/A	300
Geesun Intelligent	N/A	5,780	1,290	N/A	4,640
China Media Investment (1st installment capital contribution)	N/A	10,040	250	N/A	2,500
Jiangsu Huaer	N/A	4,380	1,290	N/A	3,500
Jinpower Electrical	N/A	6,030	1,280	N/A	4,830
China Media Investment (2nd installment capital contribution)	N/A	1,570	40	N/A	390
Liaoning Zhenlong	N/A	4,620	1,280	N/A	4,720
NTong	N/A	12,830	1,280	N/A	16,420
Hwagain	N/A	12,880	1,290	N/A	12,880
China Media Investment (3rd installment capital contribution)	N/A	1,710	40	N/A	430
China Media Investment (4th installment capital contribution)	N/A	7,260	180	N/A	1,820
Chengtian	N/A	6,440	1,290	N/A	12,890
China Media Investment (5th installment capital contribution)	N/A	780	20	N/A	190
Besttone	N/A	12,120	1,210	N/A	12,120
China Media Investment (6th installment capital contribution)	N/A	8,880	220	N/A	2,220
China Media Investment (7th installment capital contribution)	N/A	5,200	130	N/A	1,300
China Media Investment (8th installment capital contribution)	N/A	3,170	80	N/A	790

SUB-PARTICIPATION SCHEME (CONTINUED)

Name of projects	Mr. ZHANG Rizhong (Note 1) US$	Mr. WANG Xiaoding (Note 2) US$	Mr. TSE Yue Kit (Note 3) US$	Mr. LAW Hung Kuen, Janson (Note 4) US$	Mr. HONG Xiaoyuan (Note 5) US$
China Media Investment (9th installment capital contribution)	N/A	1,330	30	N/A	330
Xinhua Preschool Education (1st installment capital contribution)	N/A	4,310	440	N/A	2,150
Oriental Pearl	N/A	38,870	1,390	N/A	13,930
JIC Leasing	N/A	12,900	1,290	N/A	N/A
China Re	N/A	12,900	1,290	1,290	N/A
Jinlanmei Travel (1st installment capital contribution)	N/A	3,220	640	640	N/A
Iflytek	N/A	12,890	1,290	1,290	N/A
Iflytek Venture Capital (1st installment capital contribution)	N/A	6,440	1,290	1,290	N/A
Rong Bao Zhai Culture (1st installment capital contribution)	N/A	8,590	860	860	N/A
Rong Bao Zhai Culture (2nd installment capital contribution)	N/A	4,290	420	420	N/A
Iflytek Venture Capital (2nd installment capital contribution)	N/A	970	190	190	N/A
Qinghai Lake Tourism (1st installment capital contribution)	640	3,200	320	320	N/A
Qinghai Lake Tourism (2nd installment capital contribution)	1,920	9,600	960	960	N/A
Iflytek Venture Capital (3rd installment capital contribution)	N/A	970	190	190	N/A
The Jiangmen Ventures Fund	1,280	3,840	1,280	1,280	N/A
Cambricon	6,370	22,940	1,270	1,270	N/A
Pony AI	1,270	6,370	1,270	2,550	N/A

Note 1: Director of the Fund and Chairman of the Investment Manager
Note 2: Director of the Fund and Director & General Manager of the Investment Manager
Note 3: Director of the Fund and Director of the Investment Manager
Note 4: Director of the Investment Manager
Note 5: Chairman of the Fund (resigned on 14 September 2018)

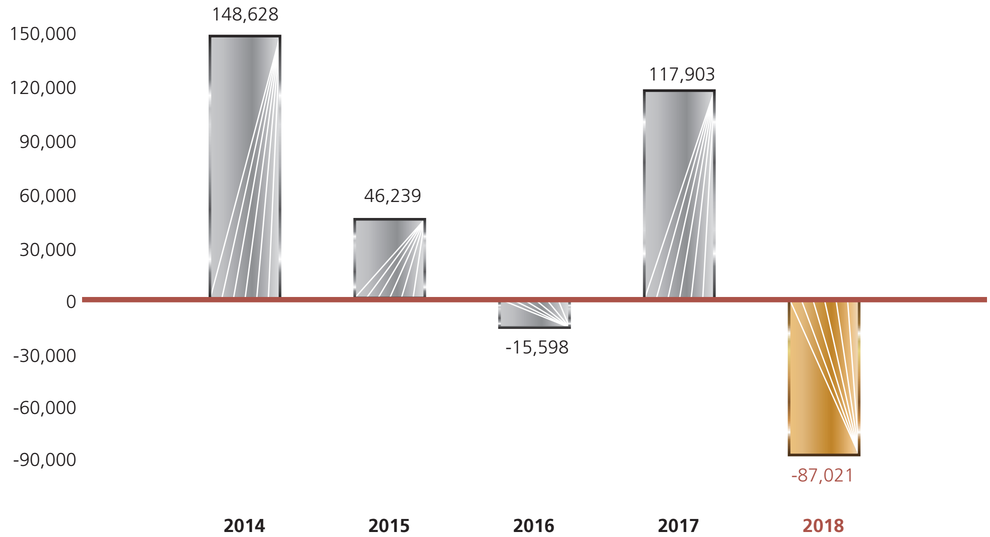
Mr. WANG Xiaoding
Director & General Manager
China Merchants China Investment Management Limited

Hong Kong, 28 March 2019

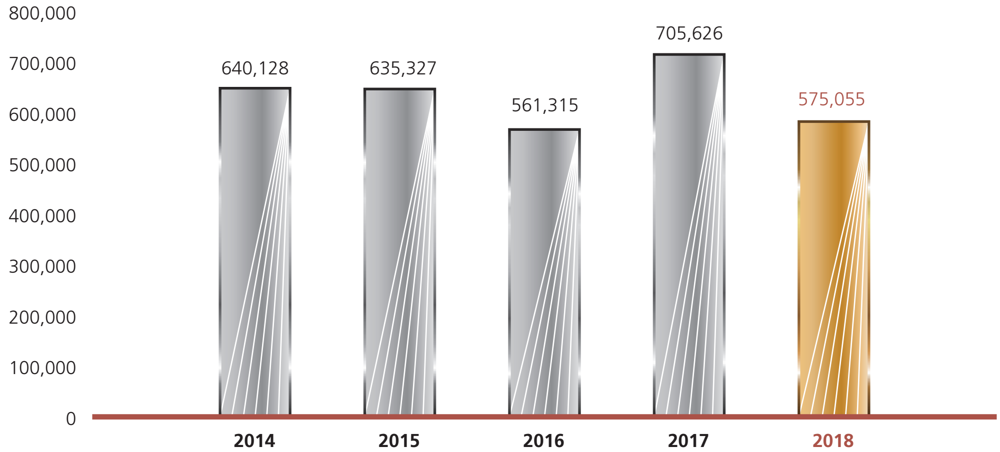
FINANCIAL HIGHLIGHTS

YEAR	NET (LOSS) PROFIT *(US$'000)*	NET ASSETS *(US$'000)*
2018	**(87,021)**	**575,055**
2017	117,903	705,626
2016	(15,598)	561,315
2015	46,239	635,327
2014	148,628	640,128

NET (LOSS) PROFIT (US$'000)



NET ASSETS (US$'000)



DIRECTORS' REPORT

The Directors present their annual report and the audited consolidated financial statements for the year ended 31 December 2018.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. The activities of the subsidiaries are set out in note 29 to the consolidated financial statements.

BUSINESS REVIEW

A review of the business of the Group during the year and a discussion on the Group's prospects are provided in the Chairman's Statement and the Investment Manager's Discussion and Analysis on pages 4 to 5 and pages 7 to 31 of the Annual Report, respectively. Description of key risk factors and uncertainties that the Group is facing is provided in the Investment Manager's Discussion and Analysis on pages 32 to 34 of the Annual Report and in note 4 to the consolidated financial statements while the financial risk management objectives and policies of the Group can be found in note 5 to the consolidated financial statements. An analysis of the Group's performance during the year using financial key performance indicators is provided in the Financial Summary on page 130 of the Annual Report. In addition, discussions on the Group's compliance with relevant laws and regulations which have a significant impact on the Group, relationships with its key stakeholders and environmental policy are contained in the Corporate Governance Report on pages 53 to 68 of the Annual Report.

RESULTS AND DIVIDENDS

The results of the Group for the year ended 31 December 2018 and the financial position of the Group at that date are set out in the consolidated financial statements on pages 78 to 79.

As the shares of Industrial Bank Co., Ltd. held by the Group had been fully disposed of in the beginning of the year and received a satisfactory return, and to mark the 25th listing anniversary of the Company, the Directors declared and paid a special interim dividend of US$0.05 (2017: Nil) per share amounting to US$7,616,651 (2017: Nil) during the year. The Directors recommend the payment of a final dividend of US$0.07 per share (2017: US$0.06) and a special dividend of US$0.05 per share (2017: Nil), totaling US$0.12 per share (2017: US$0.06) for 2018 to the shareholders on the register of members on 3 June 2019 amounting to US$18,279,962 (2017: US$9,139,981).

FIVE YEARS FINANCIAL SUMMARY

A summary of the results and the assets and liabilities of the Group for the last five financial years is set out on page 130 of the Annual Report.

DISTRIBUTABLE RESERVES OF THE COMPANY AND DIVIDEND POLICY

The Company has an amount of US$47,652,713 (31 December 2017: US$47,689,857) available for distribution as at 31 December 2018.

In consideration of maintaining a balance between investing for business growth and sharing the investment results with our shareholders, the Company intends to, under normal circumstances, adopt a relatively stable dividend policy and the dividends will be paid out in cash once a year, usually in the form of final dividends payable in July in each year. The Directors may also from time to time declare interim dividends as they see justified by the profits of the Company. In addition, the Company will give due consideration, including status of the investment portfolio, investment opportunities, commitments, etc., to the distribution of a special dividend upon receiving a satisfactory return from the realisation of its investments.

ISSUED SHARES

Details of movements during the year in the issued shares 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 by the shareholders meeting.

PURCHASE, SALE OR REDEMPTION OF SHARES OF THE COMPANY

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

DIRECTORS

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

Mr. ZHANG Jian* *(Chairman)*	(Appointed on 14 September 2018)
Mr. ZHANG Rizhong*	
Mr. CHU Lap Lik, Victor#	
Mr. WANG Xiaoding#	
Mr. TSE Yue Kit#	
Ms. KAN Ka Yee, Elizabeth *(alternate to Mr. CHU Lap Lik, Victor#)*	
Mr. KE Shifeng*	
Mr. LIU Baojie**	
Mr. TSANG Wah Kwong**	
Dr. LI Fang**	
Mr. HONG Xiaoyuan# *(Chairman)*	(Resigned on 14 September 2018)

\# *Executive Directors*
* *Non-executive Directors*
** *Independent Non-executive Directors*

In accordance with Article 105 of the Articles of Association of the Company, Mr. ZHANG Rizhong, Mr. CHU Lap Lik, Victor and Dr. LI Fang retire and, being eligible, offer themselves for re-election.

Mr. ZHANG Jian was appointed as Director of the Company on 14 September 2018, and in accordance with Article 101 of the Articles of Association of the Company, he retired and was re-elected as Director of the Company at the extraordinary general meeting held on 28 November 2018.

The Company has received annual confirmation from each of the Independent Non-executive Directors as regards their independence pursuant to Rule 3.13 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**") and considers that each of the Independent Non-executive Directors is independent to the Company.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Mr. ZHANG Jian, aged 54, was appointed as the Chairman and Non-executive Director of the Company on 14 September 2018. He is currently the Chief Digital Officer and General Manager of Financial Equity Management Department of China Merchants Group Limited, Standing Vice Chairman of the Executive Committee of China Merchants Financial Services Business Unit as well as Director of China Merchants Finance Holdings Company Limited, both of the companies are substantial shareholders of the Company. He is also the Vice Chairman of China Merchants Capital Investment Co., Ltd., and a Director of China Merchants Bank Co., Ltd. (its shares are listed on both the Shanghai Stock Exchange and the Hong Kong Stock Exchange), Shenzhen CMB Qianhai Financial Asset Exchange Co., Ltd., Shijinshi Credit Service Co., Ltd., China Merchants Life Insurance Co., Ltd., Four Rivers Investment Management Co., Ltd. and China Merchants Innovation Investment Management Co., Ltd., and the Chairman of China Merchants Fintech Co., Ltd. Prior to joining China Merchants Finance Holdings Company Limited in September 2015, Mr. ZHANG worked with China Merchants Bank as the General Manager of Suzhou Branch, Deputy General Manager (Department In-charge) of Corporate Banking Department of Head Office, Business Director and General Manager of Corporate Banking Department of Head Office, Business Director and General Manager of Credit Risk Management Department of Head Office, Business Director and General Manager of Comprehensive Risk Management Office of Head Office. Mr. ZHANG obtained his bachelor's degree in Economics & Management from the Department of Economics of Nanjing University and master's degree in Econometrics from the Nanjing University Business School. He is also a qualified senior economist in China.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT (CONTINUED)

Mr. ZHANG Rizhong, aged 50, has been a Non-executive Director of the Company since April 2017. He is the Chairman of the Investment Manager. He is currently the Director and Chief Executive Officer of China Merchants Capital Investment Co., Ltd. He is also a Director of China Merchants Union (BVI) Limited. He was the Deputy Financial Controller, Financial Controller, Deputy General Manager and Chief Financial Officer of China Merchants Port Holdings Company Limited (the shares of which are listed on the Hong Kong Stock Exchange), Assistant General Manager and Financial Controller of China Merchants Holdings (UK) Limited, Deputy General Manager of Finance Department of the China Merchants Group. Mr. ZHANG has joined the China Merchants Group over 20 years. He has extensive experience in corporate comprehensive management, financial management, risk management and control, investment negotiations, domestic and overseas asset management with significant scale. He on several occasions led a team responsible for issuing bonds and conducting equity financing in the international capital markets, and organised or deeply participated in merger and acquisition and fund-raising activities. He also has extensive experience in the investment of "One Belt One Road" strategic overseas projects and establishment of investment and fund-raising platform of the China Merchants Group. Mr. ZHANG served as a Supervisor of Shanghai International Port (Group) Co., Ltd. (the shares of which are listed on the Shanghai Stock Exchange) from December 2005 to March 2016, a Director of Shenzhen Chiwan Wharf Holdings Limited (the shares of which are listed on the Shenzhen Stock Exchange) from May 2014 to March 2015 and a Supervisor of Shenzhen Chiwan Wharf Holdings Limited from March to October 2015. Mr. ZHANG is a qualified accountant in China and a member of The Association of Chartered Certified Accountants, UK. Mr. ZHANG obtained his bachelor's degree in Economics from Central University of Finance and Economics, PRC and MBA degree from The University of Westminster, UK.

Mr. CHU Lap Lik, Victor, aged 61, has been an Executive Director of the Company since June 1993 and holds directorship in the Investment Manager. He is also Chairman of First Eastern Investment Group which is a pioneer of private equity investments in the PRC. Mr. CHU is currently Chairman of the Hong Kong-Europe Business Council. He has formerly 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 was a Foundation Board Member of the World Economic Forum in Geneva from 2003 to 2015 and currently co-chairs the Forum's International Business Council. He is also a Director of Grand Harbour Marina PLC, a company listed on the Malta Stock Exchange and Airbus SE, a company listed on the major European stock exchanges. Mr. CHU took his law degree at University College London where he is now an Honorary Fellow.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT (CONTINUED)

Mr. WANG Xiaoding, aged 50, has been an Executive Director of the Company since September 2014 and holds directorship in a number of subsidiaries of the Company. He has also been the Director and General Manager of the Investment Manager since May 2014. He served as the Chief Representative of the Investment Manager's Shenzhen Representative Office from March 2009 to May 2017. He served as the Chief Investment Officer of the Investment Manager from June 2011 to May 2014. Before joining the Investment Manager, Mr. WANG served as Chief Executive Officer of Guangxi Baihe Chemicals Corp., Chief Financial Officer of Guangxi Fenglin Group Co., Ltd., Senior Software Engineer of Thrive Media Corporation in Canada, Finance Manager of Wellkent International Corporation in Canada. Currently, Mr. WANG serves as a Director of Wuhan Rixin Technology Co., Ltd., China Media (Tianjin) Investment Management Co., Ltd., Jiangsu Huaer Quartz Materials Co., Ltd., Hwagain Group Co., Ltd. and China Credit Trust Co., Ltd., and a Supervisor of JIC Leasing Co., Ltd. Mr. WANG is licensed with the Securities and Futures Commission in Hong Kong as responsible officer. Mr. WANG studied in Peking University, People's (Renmin) University of China and University of Alberta in Canada, where he obtained his bachelor's degree in Geo-economics, master's degree in Regional Economics and master's degree in Economics, respectively.

Mr. TSE Yue Kit, aged 57, has been an Executive Director of the Company since November 2000 and holds directorship in the Investment Manager and a subsidiary of the Company. Mr. TSE is the General Manager in the Private Equity Department of China Merchants Finance Holdings Company Limited, which is a substantial shareholder of the Company. Mr. TSE has a number of years extensive experiences in accounting, auditing, corporate finance as well as investment. Mr. TSE is licensed with the Securities and Futures Commission in Hong Kong as responsible officer. Mr. TSE obtained his bachelor's degree with honours in Accountancy from the University of Exeter, UK.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT (CONTINUED)

Ms. KAN Ka Yee, Elizabeth (alternate to Mr. CHU Lap Lik, Victor), aged 61, has been an Alternate Director of the Company since May 1999. She is Managing Director of First Eastern Investment Group with which she is a founding member since its establishment in 1988. She serves on boards of various companies which include Evolution Securities Asia Limited, FE Securities Limited, Camper & Nicholsons Marina Investments Limited, Sustainable Development Capital (Asia) Limited and Grand Harbour Marina PLC. Ms. KAN was Deputy Managing Director and a Director of the Investment Manager from 1993 to 2006. She was re-appointed as a Director of the Investment Manager in October 2017. 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 Member of the Hong Kong Institute of Certified Public Accountants. Ms. KAN is also a Member of the Hong Kong Securities and Investment Institute and a Fellow Member of the Hong Kong Institute of Directors. She began her professional career with the Hong Kong office of Arthur Andersen & Co. in the area of audit and business advisory services. Ms. KAN 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. KE Shifeng, aged 53, has been a Non-executive Director of the Company since December 2009. He has 23 years investment experience. Between 1997 and 2011, Mr. KE was the senior portfolio manager for Martin Currie Investment Management Limited providing research and investment management services to its clients investing in the Greater China (including Taiwan) markets. Mr. KE and his team ran a range of China strategies, including the China Fund Inc. (CHN US, a NYSE listed company), Martin Currie China Hedge Fund, Taiwan Opportunities Fund and Martin Currie China A Share Fund with total assets under management reaching US$5.5 billion at the end of 2011. In November 2011, Mr. KE as a founding partner co-founded Open Door Group providing investment management services to foreign institutional clients investing in the Greater China area. In May 2017, Mr. KE with three senior investment analysts co-founded Hangzhou Heartland Investment Management Limited, an onshore investment management platform providing Renminbi investment management services to domestic high-net-worth clients and institutional investors investing in the Greater China area. Mr. KE holds a law degree from Renmin University of China and an MBA degree from The University of Edinburgh, UK.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT (CONTINUED)

Mr. LIU Baojie, aged 55, has been an Independent Non-executive Director of the Company since December 2009. He has about 20 years of experience in the financial services industry. He is currently Chief Executive Officer of Huaneng Invesco WLR (Beijing) Investment Fund Management Company Ltd., and prior to this, he had worked for two other investment management companies focusing on China investment. Before that he held various positions with financial institutions, including Bank of America, ICEA Capital Limited and J.P. Morgan. Mr. LIU holds an MBA degree from University of Utah, USA.

Mr. TSANG Wah Kwong, aged 66, has been an Independent Non-executive Director of the Company since September 2012. He is a former partner of Hong Kong and China firm of PricewaterhouseCoopers. He has over 30 years of experience in auditing and providing support for initial public offerings and acquisition transactions. Currently, Mr. TSANG is an Independent Non-executive Director of a number of companies, including Sihuan Pharmaceutical Holdings Group Ltd. (Stock Code: 460.HK), TK Group (Holdings) Limited (Stock Code: 2283.HK), China Animation Characters Company Limited (Stock Code: 1566.HK) and Ping An Securities Group (Holdings) Limited (Stock Code: 231.HK). Mr. TSANG was an Independent Director of Agria Corporation (formerly listed on the New York Stock Exchange) from August 2011 to October 2017, a Director of PGG Wrightson Limited (listed on the New Zealand Stock Exchange) from December 2014 to October 2017 and an Independent Non-executive Director of PanAsialum Holdings Company Limited (Stock Code: 2078.HK) from January 2013 to January 2016. Mr. TSANG is a Fellow Member of the Hong Kong Institute of Certified Public Accountants, a Member of the Chinese Institute of Certified Public Accountants, and a Fellow Member of The Association of Chartered Certified Accountants, UK. Mr. TSANG received a bachelor's degree of Business Administration from the Chinese University of Hong Kong.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT (CONTINUED)

Dr. LI Fang, aged 61, has been an Independent Non-executive Director of the Company since October 2014. She is currently the Managing Director of Yuanta Securities (Hong Kong) Company Limited and the Vice Chairman of CR Yuanta Fund Management Co., Ltd. Dr. LI has over 20 years of professional experience in securities, asset management, insurance and banking. Dr. LI was a Senior Research Assistant in Financial Research Bureau at the headquarters of the People's Bank of China, a Research Fellow at the Asia-Pacific Operations of Aetna International Inc., the Head of Research Centre for Asian/Pacific Regional Pensions of ING Group, a Senior Business Advisor of Global Retirement Services of ING Group and the Chief Strategist at Corporate Finance of Yuanta Securities (Hong Kong) Company Limited. Dr. LI holds a doctorate degree in Economics from Monash University in Australia, a master's degree in Banking and Finance from the Graduate School of the People's Bank of China (now known as PBC School of Finance, Tsinghua University) and a master's degree in Public Administration from the International Christian University in Japan.

DIRECTORS OF SUBSIDIARIES

The name of persons who have served on the board of the subsidiaries of the Company during the year and up to the date of this report are set out in note 29 to the consolidated financial statements.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SHARES

As at 31 December 2018, 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 Issuers, were as follows:

Name of Director	Number of ordinary shares interested	Capacity	Percentage of total issued shares
Mr. CHU Lap Lik, Victor	3,030,024	Interest of controlled corporation	1.99%

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 2018, 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 2018.

EQUITY-LINKED AGREEMENTS

No equity-linked agreements were entered into by the Company at any time during the year or subsisted at the end of the year.

ARRANGEMENTS TO ACQUIRE SHARES OR DEBENTURES

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

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS OF SIGNIFICANCE

Details of the sub-participation scheme are set out on pages 35 to 38 of the Annual Report. Save as disclosed, no transactions, arrangements or contracts of significance, to which the Company, its parent company, its subsidiaries or fellow subsidiaries was a party and in which a Director of the Company or his/her connected entities had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

COMPETING INTERESTS

Mr. ZHANG Jian is the Vice Chairman of and Mr. ZHANG Rizhong is the Director and Chief Executive Officer of China Merchants Capital Investment Co., Ltd. which is actively involved in direct investments and which may compete, either directly or indirectly, with business of the Group. Mr. CHU Lap Lik, Victor and Ms. KAN Ka Yee, Elizabeth (being alternate to Mr. CHU Lap Lik, Victor) are Directors of various companies within First Eastern Investment Group which is actively involved in direct investments in the PRC and which may compete, either directly or indirectly, with business of the Group. However, the Company is capable of carrying on its business independently of, and at arm's length from, the businesses of China Merchants Capital Investment Co., Ltd. and First Eastern Investment Group. If conflict of interest arises on the part of Mr. ZHANG Jian, Mr. ZHANG Rizhong, Mr. CHU Lap Lik, Victor, or Ms. KAN Ka Yee, Elizabeth, as the case may be, he or she shall, pursuant to the Articles of Association of the Company, not vote nor be counted in the quorum on the relevant resolution of the Board.

Save as disclosed, in so far as the Directors are aware, none of the Directors or any of their respective associates has an interest in a business that competes or may compete with the business of the Group.

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).

PERMITTED INDEMNITY PROVISION

The Articles of Association of the Company provides that subject to the provisions of the Hong Kong Companies Ordinance and so far as may be permitted by the Hong Kong Companies Ordinance, every Director of the Company shall be entitled to be indemnified by the Company out of the assets of the Company against all losses or liabilities (except any liability in relation to a Director as mentioned in section 469(2) of the Hong Kong Companies Ordinance) which he may sustain or incur in or about the execution of the duties of his office or otherwise in relation thereto.

The Company has taken out insurance against the liabilities and costs associated with defending any proceedings which may be brought against the Directors of the Company.

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2018, the following persons, other than a Director or chief executives of the Company, had interests in the shares of the Company as recorded in the register of the Company required to be kept under Section 336 of the SFO:

Name of shareholder	Long/ short position	Capacity	Number of ordinary shares interested	Percentage of total issued shares
China Merchants Group Limited (Note 2)	Long position	Interest of controlled corporation	42,022,041	27.59%
China Merchants Steam Navigation Company Limited (Note 3)	Long position	Interest of controlled corporation	42,022,041	27.59%
China Merchants Holdings (Hong Kong) Company Limited (Note 1)	Long position	Interest of controlled corporation	42,022,041	27.59%
China Merchants Finance Holdings Company Limited (Note 2)	Long position	Interest of controlled corporation	42,022,041	27.59%
China Merchants Financial Services Limited (Note 2)	Long position	Interest of controlled corporation	42,022,041	27.59%
Good Image Limited	Long position	Beneficial owner	42,022,041	27.59%
Lazard Asset Management LLC	Long position	Investment manager	26,084,706	17.12%
State Street Bank & Trust Company	Lending pool	Approved lending agent	7,661,934	5.03%

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. 99.34%) in the company whose name is set out immediately under it.

Note 2: China Merchants Group Limited, China Merchants Finance Holdings 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 3: China Merchants Steam Navigation Company Limited is deemed to have corporate interests in the shares by virtue of its controlling shareholding (i.e. 89.45%) 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 executives 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 2018, there is sufficient public float of not less than 25% of the Company's issued shares as required under the Listing Rules.

CONTINUING CONNECTED TRANSACTION

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

Investment Management Agreement

China Merchants China Investment Management Limited, a company incorporated in Hong Kong, is the Investment Manager of the Company for both listed and unlisted investments. Mr. ZHANG Rizhong, Mr. CHU Lap Lik, Victor, Mr. WANG Xiaoding, Mr. TSE Yue Kit and Ms. KAN Ka Yee, Elizabeth are Directors of both the Company and the Investment Manager. Mr. CHU Lap Lik, Victor and Ms. KAN Ka Yee, Elizabeth have 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 existing Investment Management Agreement entered into between the Company and the Investment Manager (the "**Existing Management Agreement**") on 15 October 2015 became effective on 1 January 2016 and was for a fixed term ended on 31 December 2018.

On 18 October 2018, the Company announced that it had on 18 October 2018 entered into an Investment Management Agreement (the "**Revised Management Agreement**") with the Investment Manager in relation to the proposed re-appointment of the Investment Manager as the investment manager of the Company immediately following the expiry date of the Existing Management Agreement. As the Investment Manager is a connected person of the Company and the transaction contemplated under the Revised Management Agreement constitutes a continuing connected transaction of the Company under Chapter 14A of the Listing Rules, the entering into of the Revised Management Agreement was subject to the reporting, announcement, annual review and independent shareholders' approval requirements under the Listing Rules. A circular dated 8 November 2018 containing, among others, further details of the Revised Management Agreement, the recommendation of the independent board committee, the advice of the independent financial adviser to the independent board committee and the independent shareholders and a notice convening the extraordinary general meeting to approve the Revised Management Agreement and the proposed annual caps had been distributed to the shareholders of the Company. The independent shareholders of the Company approved the Revised Management Agreement and the proposed annual caps at the extraordinary general meeting held on 28 November 2018. The Revised Management Agreement became effective on 1 January 2019 and is for a fixed term ending on 31 December 2021.

CONTINUING CONNECTED TRANSACTION (CONTINUED)

Investment Management Agreement (continued)

For the year ended 31 December 2018, the management fees which were calculated based on a fixed percentage on the value of the Group's adjusted assets on a quarterly basis as stipulated in the Existing Management Agreement totaling US$12,206,666 (2017: US$12,303,271) were paid or payable to the Investment Manager.

The Independent Non-executive Directors have reviewed the above continuing connected transaction and have confirmed that the transaction has 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 better; and

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

Pursuant to Rule 14A.56 of the Listing Rules, the Company engaged its external auditor to report on the Group's continuing connected transaction in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditor has issued an unqualified letter containing their findings and conclusions in respect of the continuing connected transaction set out above in accordance with Rule 14A.56 of the Listing Rules.

Save as disclosed above, details of significant related party transactions are disclosed in note 28 to the consolidated financial statements. The Company has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules.

AUDITOR

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

On behalf of the Board

Mr. ZHANG Jian
Chairman

Hong Kong, 28 March 2019

CORPORATE GOVERNANCE

The Company is committed to maintaining high standards of corporate governance. The Board believes that good corporate governance practices are important to protect shareholders' interests and to promote investor confidence. The Company complies with the relevant requirements under the Hong Kong Companies Ordinance, the Hong Kong Securities and Futures Ordinance, the Listing Rules and the US Foreign Account Tax Compliance Act. Further, the Company has complied with all the code provisions set out in Appendix 14 to the Listing Rules (Corporate Governance Code (the "**Code**")) 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 package is determined and borne by the Investment Manager, the Company has no salaried employees. The Stock Exchange of Hong Kong Limited has granted a waiver to the Company for establishment of remuneration committee on condition that the Executive Directors and senior management of the Company will not receive any Directors' fee or emolument from the Company. Thus, no remuneration committee has been established by the Company. In addition, it is suitable for the Company to hold regular Board meeting twice a year at a minimum.

The Board continues to monitor and review the Company's corporate governance practices to ensure compliance.

BOARD OF DIRECTORS

As at 31 December 2018, the Board consisted of three Executive Directors, three Non-executive Directors and three Independent Non-executive Directors as defined by the Listing Rules. The biography of the Directors are set out on pages 43 to 48 of the Annual Report.

The Company has appointed an Investment Manager to manage its investment portfolio and day-to-day administration of the Company. According to the Investment Management Agreement entered into between the Company and the Investment Manager, the Investment Manager undertakes all investment and management duties arising pursuant to the operation of the Company and its responsibilities include identifying and evaluating investment opportunities, executing investment decisions, monitoring and enhancing investments of the Company, making decisions on investments and realisations for the Company, managing the corporate affairs of the Company and dealing with its day-to-day administration.

BOARD OF DIRECTORS (CONTINUED)

The Board is responsible for formulating the Company's overall investment strategy and guidelines that the Investment Manager shall follow to make the investments. The Board is also responsible for performing the following corporate governance duties as required under the Code:

- developing and reviewing the Company's policies and practices on corporate governance;
- reviewing and monitoring the training and continuous professional development ("**CPD**") of the Directors and senior management;
- reviewing and monitoring the Company's policies and practices on compliance with legal and regulatory requirements;
- developing, reviewing and monitoring the code of conduct and compliance manual (if any) applicable to the employees and Directors; and
- reviewing the Company's compliance with the Code and disclosure in the corporate governance report.

During the year under review, the Board had performed the above duties.

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 Directors and Alternate Director is as follows:

	Attendance/number of regular meetings during the Director's term of office in 2018
Mr. ZHANG Jian* *(Chairman) (appointed on 14 September 2018)*	0/0
Mr. ZHANG Rizhong*	2/2
Mr. CHU Lap Lik, Victor#	0/2
Mr. WANG Xiaoding#	2/2
Mr. TSE Yue Kit#	2/2
Ms. KAN Ka Yee, Elizabeth *(alternate to Mr. CHU Lap Lik, Victor#)*	2/2
Mr. KE Shifeng*	2/2
Mr. LIU Baojie**	2/2
Mr. TSANG Wah Kwong**	2/2
Dr. LI Fang**	2/2
Mr. HONG Xiaoyuan# *(Chairman) (resigned on 14 September 2018)*	2/2

Executive Directors
* *Non-executive Directors*
** *Independent Non-executive Directors*

Note: In addition to the regular Board meetings, there was a Board meeting convened by short notice and held during the year under review and attended by the Directors as follows: Mr. ZHANG Jian 1/1; Mr. ZHANG Rizhong 1/1; Mr. CHU Lap Lik, Victor 0/1; Mr. WANG Xiaoding 1/1; Mr. TSE Yue Kit 1/1; Mr. KE Shifeng 1/1; Mr. LIU Baojie 1/1; Mr. TSANG Wah Kwong 1/1; Dr. LI Fang 1/1; Ms. KAN Ka Yee, Elizabeth 1/1.

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

BOARD OF DIRECTORS (CONTINUED)

The Board has three committees during the year under review, namely the Audit Committee, Nomination Committee and Investment Committee for assisting to monitor the management of the Company. The details of the Committees are as below:

Audit Committee

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

- considering the appointment of the independent auditor, the audit fee, and any questions of resignation or dismissal of that auditor;
- reviewing the interim and annual results and reports;
- reviewing financial and internal controls and risk management system;
- considering major investigation findings on risk management and internal control matters; and
- reviewing the arrangements that employees of the Company can use, in confidence, to raise concerns about possible improprieties in financial reporting, internal control or other matters.

The Audit Committee is provided with sufficient resources enabling it to perform its duties.

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

	Attendance/ number of meetings
Mr. TSANG Wah Kwong *(Chairman of the Audit Committee)*	2/2
Mr. LIU Baojie	2/2
Dr. LI Fang	2/2

BOARD OF DIRECTORS (CONTINUED)

Audit Committee (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 the year 2018;
- reviewed the interim report and the interim results announcement for the six months ended 30 June 2018;
- reviewed the audit plan for the year 2018 to assess the general scope of audit work;
- reviewed the annual report (including audited consolidated financial statements) and the final results announcement for the year 2017; and
- considered the internal controls assessment report prepared by the international accountancy firm.

Nomination Committee and Nomination Policy

The Board has established a Nomination Committee with specific terms of reference in accordance with the Code and it comprises a majority of Independent Non-executive Directors. The terms of reference of the Nomination Committee are available on the Company's website. The Nomination Committee is responsible for reviewing the structure, size and composition of the Board and making recommendations on any proposed changes to the Board to complement the Company's corporate strategy. It shall consider the suitability of a candidate to become Board member and assess the independence of Independent Non-executive Directors taking into account the independence requirements set out in Rule 3.13 of the Listing Rules. When considering a candidate to be appointed or re-elected as a Director of the Company, the Nomination Committee shall follow the nomination criteria and process as described below and as adopted by the Board from time to time. It is also provided with sufficient resources enabling it to perform its duties.

In identifying and selecting a suitable candidate, the Nomination Committee will follow the nomination criteria set out below: (a) character and integrity; (b) qualifications including professional qualifications, skills, knowledge and experience that are relevant to the Company's business and corporate strategy; (c) willingness to devote adequate time to discharge duties as Board member; (d) board diversity policy and any measurable objectives adopted for achieving diversity on the Board; (e) requirement for the Board to have Independent Non-executive Directors in accordance with the Listing Rules; and (f) such other perspectives appropriate to the Company's business or as suggested by the Board.

BOARD OF DIRECTORS (CONTINUED)

Nomination Committee and Nomination Policy (continued)

The nomination process is as follows:

(a) For nomination by the Nomination Committee: (i) the Nomination Committee will review the structure, size and composition of the Board periodically and make recommendations on any proposed changes to the Board to complement the Company's corporate strategy; (ii) when it is necessary to fill a casual vacancy or appoint an additional Director, the Nomination Committee will identify, evaluate or select candidates as recommended to the Nomination Committee, with or without assistance from external agencies or the Company, pursuant to the criteria as mentioned above; (iii) if the process yields one or more desirable candidates, the Nomination Committee will rank them by order of preference based on the needs of the Company and make reference check of each candidate (where applicable); (iv) the Nomination Committee will make recommendation to the Board including the terms and conditions of appointment; (v) the Board will consider and decide on the appointment based on the recommendations made by the Nomination Committee.

(b) For re-election of retiring Directors at annual general meeting ("**AGM**") of the Company: (i) according to the Articles of Association of the Company, at each AGM, 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; (ii) the Nomination Committee will review the overall contributions and services to the Company of the retiring Directors. The Nomination Committee will also review the expertise and professional qualifications of the retiring Directors, who offer themselves for re-election at the AGM, to determine whether such Directors continue to meet the criteria as mentioned above; (iii) based on the review made by the Nomination Committee, the Board will make recommendations to shareholders on candidates standing for re-election at the AGM and will provide the biographical information of the retiring Directors in a shareholder circular in accordance with the requirements of the Listing Rules to enable shareholders to make the informed decision on the re-election of such candidates at the AGM.

(c) For nomination by shareholders: shareholders of the Company may propose a person for election as a Director in accordance with the Articles of Association of the Company, details of which are set out in the "Procedures for Shareholders to Propose a Person for Election as a Director" which is available on the Company's website.

BOARD OF DIRECTORS (CONTINUED)

Nomination Committee and Nomination Policy (continued)

During the year under review, the Nomination Committee has resolved to recommend the appointment of Mr. ZHANG Jian as Chairman and Non-executive Director of the Company and to recommend the renewal of appointment of Mr. HONG Xiaoyuan, Mr. CHU Lap Lik, Victor and Mr. TSE Yue Kit as Executive Director of the Company; Mr. KE Shifeng as Non-executive Director of the Company; and Mr. LIU Baojie and Mr. TSANG Wah Kwong as Independent Non-executive Director of the Company, respectively. It has also reviewed the structure, size and composition of the Board in a meeting. The attendance of individual members of the Nomination Committee is as follows:

	Attendance/ number of meetings
Mr. ZHANG Jian* *(Chairman of the Nomination Committee) (appointed on 14 September 2018)*	0/0
Mr. TSANG Wah Kwong**	2/2
Dr. LI Fang**	2/2
Mr. HONG Xiaoyuan# *(Chairman of the Nomination Committee) (resigned on 14 September 2018)*	2/2

Executive Director
* *Non-executive Director*
** *Independent Non-executive Directors*

According to the Articles of Association of the Company, any Directors appointed by the Board shall hold office only until the next following AGM or until the next following general meeting of the Company in the case of filling a casual vacancy, and shall then be eligible for re-election.

Investment Committee

The Board has established an Investment Committee, of which currently has four members, to approve transactions (investments or realisations) of over US$20 million each (effective from 5 February 2010) and to supervise the day-to-day management functions of the Investment Manager. Currently, the Committee members include two Executive Directors and two Non-executive Directors.

During the year under review, there was no investment or realisation that required to consider and make decision by the Investment Committee.

BOARD DIVERSITY POLICY

The Company has a board diversity policy (the "**Policy**") since August 2013. A summary of the Policy, together with the measurable objectives set for implementing the Policy, and the progress made towards achieving those objectives are disclosed as below.

Summary of the Policy

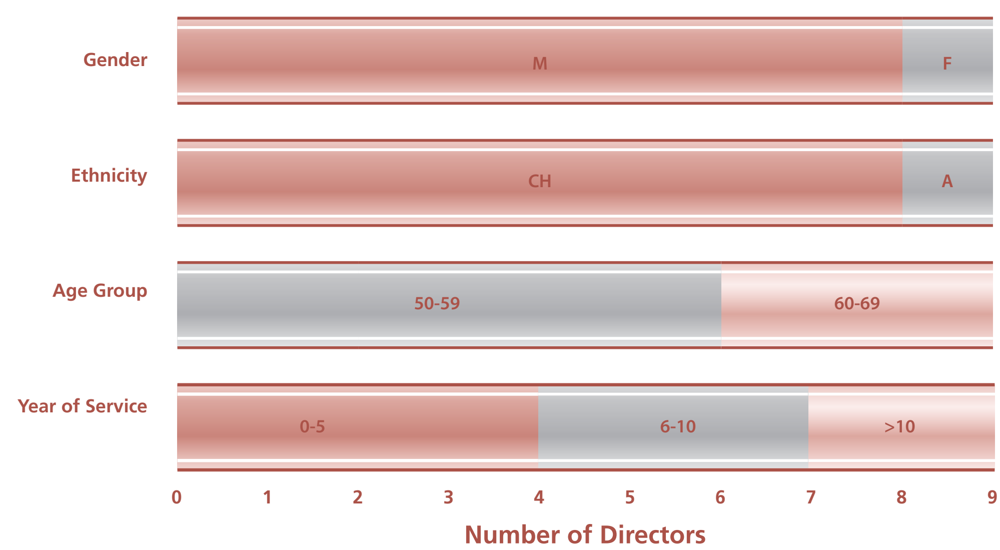
The Company sees increasing diversity at the Board level as an essential element in supporting the attainment of its strategic objectives and its sustainable development. In designing the Board's composition, the Board diversity has been considered from a number of aspects, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service. All Board appointments will be based on meritocracy, and candidates will be considered against objective criteria, having due regard for the benefits of diversity on the Board.

Measurable Objectives

Selection of candidates will be based on a range of diversity perspectives, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service. The ultimate decision will be based on merit and contribution that the selected candidates will bring to the Board.

Implementation

As at 31 December 2018, the Board's composition under major diversified perspectives was summarised as follows:



M – Male
F – Female
CH – Chinese
A – Australian

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Mr. HONG Xiaoyuan was the Chairman of the Company until 14 September 2018 and Mr. ZHANG Jian was appointed to succeed Mr. HONG as the Chairman of the Company on the same date. The functions of the Chief Executive Officer have been undertaken by the Investment Manager. The Director and General Manager of the Investment Manager is Mr. WANG Xiaoding, who is also a Director of the Company. The roles of the Chairman and Chief Executive Officer are segregated and are not exercised by the same individual.

NON-EXECUTIVE DIRECTORS

The term of office of each Non-executive Director (including Independent Non-executive Director) is for a period of three years.

TRAINING AND SUPPORT FOR DIRECTORS

Directors must keep abreast of their collective responsibilities. Each newly appointed Director or Alternate Director shall receive an induction package covering the Company's businesses and the statutory and regulatory obligations of a director of a listed company. The Company continuously updates the Directors on the latest developments regarding the Listing Rules and other applicable regulatory requirements, to ensure compliance and enhance their awareness of good corporate governance practices. Circulars or guidance notes are issued to the Directors and senior management, where appropriate, to ensure awareness of best corporate governance practices.

Participation of the Directors and Alternate Director in the CPD during the year under review is as follows:

	Type of CPD
Mr. ZHANG Jian* *(Chairman) (appointed on 14 September 2018)*	a,c
Mr. ZHANG Rizhong*	a,c
Mr. CHU Lap Lik, Victor#	a,c
Mr. WANG Xiaoding#	a,c
Mr. TSE Yue Kit#	a,c
Ms. KAN Ka Yee, Elizabeth *(alternate to Mr. CHU Lap Lik, Victor #)*	a,c
Mr. KE Shifeng*	a,b,c
Mr. LIU Baojie**	a,c
Mr. TSANG Wah Kwong**	a,c
Dr. LI Fang**	a,c

\# *Executive Directors*

* *Non-executive Directors*

** *Independent Non-executive Directors*

TRAINING AND SUPPORT FOR DIRECTORS (CONTINUED)

Notes:

a: attending training courses, in-house briefings, seminars, conferences, or forums

b: giving talks at seminars, conferences, or forums

c: reading newspapers, journals and updates relating to the economy, general business, investment, or director's duties and responsibility, etc.

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 to the Listing Rules as the code of conduct regarding securities transactions by the Directors and relevant employees of the Company. 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 has no salaried employees, except the qualified accountant whose remuneration package is determined and borne by the Investment Manager. The Company has applied for and The Stock Exchange of Hong Kong Limited has granted a waiver to the Company for establishment of remuneration committee on condition that the Executive Directors and senior management of the Company will not receive any Directors' fee or emolument from the Company. Thus, no remuneration committee has been established by the Company.

The remuneration of the Directors is determined by the shareholders at the AGM of the Company. At the AGM of the Company held on 25 May 2018, it was resolved that the remuneration of the Directors for the year ended 31 December 2018 be fixed by the Board. All the Executive Directors did not receive any remuneration from the Company for the year ended 31 December 2018 (2017: Nil). The total remuneration payable to other Directors for the year ended 31 December 2018 is disclosed in note 10 to the consolidated financial statements.

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$159,350 and for non-audit services provided is US$21,449 which was mainly for the purpose of reviewing the internal control systems 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 financial position of the Company and its subsidiaries 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 pages 75 to 77.

RISK MANAGEMENT AND INTERNAL CONTROL

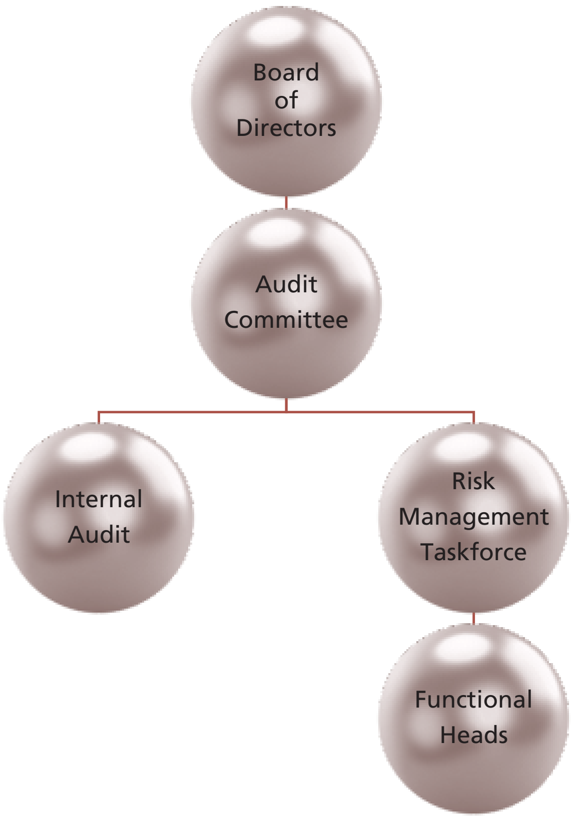
To manage and monitor the various risk factors which the Company may be exposed, the Board is responsible for establishing and overseeing the Company's risk management and internal control systems on an ongoing basis, and ensuring the review of the effectiveness of the risk management and internal control systems has been properly conducted. The main features of this system, which continue to operate, are described below.

In view of the implementation of the Consultation Conclusions on Risk Management and Internal Control, relating to the Appendix 14 to the Listing Rules, issued by The Stock Exchange of Hong Kong Limited in December 2014, the Company has already reviewed its risk management framework and processes and has implemented relevant measures resulting from this exercise that aim to enhance its framework and processes. In particular, the Company has developed, approved and implemented a risk management system, which is defined and supported by its risk management policy. The terms of reference of the Audit Committee has included its responsibility for effective systems of risk management and internal control.

RISK MANAGEMENT AND INTERNAL CONTROL (CONTINUED)

Risk Governance Structure

The Company's governance structure for its risk management system is shown below. Each party has well defined and detailed roles and responsibilities.



Risk Assessment Methodology

The Company's methodology for its risk assessment comprises four core stages (i.e. Risk Identification, Risk Assessment, Risk Responses, and Risk Monitoring and Reporting). These processes are performed at least once a year to address changes in the Company's business environment.

Review on Effectiveness of Risk Management and Internal Control Systems

The Board conducted an annual review on the effectiveness of risk management and internal control systems, covering all material controls such as financial, operational and compliance controls.

In addition, the Board has appointed an international 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, as well as risk management functions.

RISK MANAGEMENT AND INTERNAL CONTROL (CONTINUED)

Board's Responsibility

The Board has the overall responsibility to ensure that effective and sound risk management and internal control systems are maintained, while management is responsible for designing and implementing an internal control system to manage risks. The Board is also responsible for reviewing the effectiveness of the Company's risk management and internal control systems.

The risk management and internal control systems can provide reasonable and not absolute assurance against material misstatement or loss, and are designed to manage rather than eliminate the risk of failure in the process of attaining business objectives. Based on the results of the annual review, the Board is satisfied and confident with the effectiveness of risk management and internal control systems currently put in place for the Company.

Communication of Risk Events

Where risk events arise, our communications, both within the Company and to external parties, are an integral part of the risk management system. To enable the Company to make the appropriate decisions and responses to mitigate or address any risk event, relevant information on the incident needs to be communicated by and to the right functions and individuals, completely and accurately, and in a timely manner.

With respect to procedures and internal controls for handling and dissemination of inside information, the Company:

- has set out written policies and procedures in relation to the handling of inside information under the regulatory requirements of Hong Kong, including but not limited to maintenance of confidentiality, prohibition of insider dealings by the management;

- is aware of its obligation under the Listing Rules;

- conducts its affairs with closely reference to the "Guidelines on Disclosure of Inside Information" issued by the Securities and Futures Commission of Hong Kong; and

- has set out rules and procedures in dealing with enquiries from regulatory bodies, trading halt and additional disclosures to correct a false market.

COMPANY SECRETARY

The Company Secretary, Mr. LEUNG Chong Shun, is a practicing solicitor in Hong Kong. Although he is not a full time employee of the Company, he reports to the Board and is responsible for advising the Board on governance matters. The primary contact person of the Company with the Company Secretary is Mr. TSE Yue Kit, Executive Director of the Company. The Company Secretary has confirmed that he has taken no less than 15 hours of relevant professional training during the year.

CONSTITUTIONAL DOCUMENTS

During the year under review, there was no significant change in the Company's constitutional documents.

SHAREHOLDERS' RIGHTS

Set out below is a summary of certain rights of the shareholders of the Company as required to be disclosed pursuant to the mandatory disclosure requirements under Paragraph O of the Code.

Convening of General Meeting on Request

Shareholder(s) may request the Directors to call a general meeting pursuant to Sections 566 to 568 of the Hong Kong Companies Ordinance.

In accordance with Section 566 of the Hong Kong Companies Ordinance, the Directors are required to call a general meeting if the Company has received requests to do so from members of the Company representing at least 5% of the total voting rights of all the members having a right to vote at general meeting. Such requests (a) must state the general nature of the business to be dealt with at the meeting; and (b) may include the text of a resolution that may properly be moved and is intended to be moved at the meeting. Such requests (a) may be sent to the Company in hard copy form (by depositing at the registered office of the Company at 1609, Three Pacific Place, 1 Queen's Road East, Hong Kong for the attention of the Board) or in electronic form (by email: info@cmcdi.com.hk); and (b) must be authenticated by the person or persons making it. In accordance with Section 567 of the Hong Kong Companies Ordinance, the Directors must call a meeting within 21 days after the date on which they become subject to the requirement under Section 566 of the Hong Kong Companies Ordinance and such meeting must be held on a date not more than 28 days after the date of the notice convening the meeting.

Putting Forward Proposals at AGM/General Meeting

To put forward a resolution at an AGM, shareholders are requested to follow the requirements and procedures set out in Sections 615 and 616 of the Hong Kong Companies Ordinance.

Section 615 of the Hong Kong Companies Ordinance provides that the Company must give notice of a resolution if it has received requests that it do so from (a) the members of the Company representing at least 2.5% of the total voting rights of all the members who have a right to vote on the resolution at the AGM to which the requests relate; or (b) at least 50 members who have a right to vote on the resolution at the AGM to which the requests relate. Such requests (a) may be sent to the Company in hard copy form (by depositing at the registered office of the Company at 1609, Three Pacific Place, 1 Queen's Road East, Hong Kong for the attention of the Board) or in electronic form (by email: info@cmcdi.com.hk); (b) must identify the resolution of which notice is to be given; (c) must be authenticated by the person or persons making it; and (d) must be received by the Company not later than (i) 6 weeks before the AGM to which the requests relate; or (ii) if later, the time at which notice is given of that meeting. Section 616 of the Hong Kong Companies Ordinance provides that the Company that is required under Section 615 of the Hong Kong Companies Ordinance to give notice of a resolution must send a copy of it at the Company's own expense to each member of the Company entitled to receive notice of the AGM (a) in the same manner as the notice of the meeting; and (b) at the same time as, or as soon as reasonably practicable after, it gives notice of the meeting.

SHAREHOLDERS' RIGHTS (CONTINUED)

Putting Forward Proposals at AGM/General Meeting (continued)

Pursuant to Article 100 of the Articles of Association of the Company, no person, other than a retiring Director, shall, unless recommended by the Directors for election, be eligible for election to the office of Director at any general meeting, unless notice in writing of the intention to propose that person for election as a Director and notice in writing by that person of his willingness to be elected shall have been given to the Company provided that the minimum length of the period, during which such notices are given, shall be at least 7 days. The period for lodgment of such notices shall commence no earlier than the day after the despatch of the notice of the general meeting appointed for such election and end no later than 7 days prior to the date of such general meeting. Detailed procedures for shareholders to propose a person for election as a Director can be found on the Company's website.

Enquiries to the Board

Shareholders have been provided with contact details of the Company on the Company's website, such as telephone number, fax number, email address and postal address, in order to enable them to make any enquiries that they may have with respect to the Company. They can also send their enquiries to the Board using these means. In addition, shareholders can contact Computershare Hong Kong Investor Services Limited, the share registrar of the Company, if they have any enquiries about their shareholdings and entitlements to dividend.

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 Company (through the Investment Manager) has also actively responded to the investors' queries by emails or letters and 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. Shareholders may refer to the "Shareholders Communication Policy" that posted on the Company's website for more details.

General meetings, including AGM, provide a useful forum for shareholders to exchange their views with the Board. Separate resolutions are proposed at general meetings on each substantially separate issue.

General meeting proceedings are reviewed from time to time to ensure that the Company follows good corporate governance practices. The notice of general meeting is distributed to all shareholders at least 20 clear business days prior to an AGM and at least 10 clear business days prior to an extraordinary general meeting ("**EGM**") and the accompanying circular also sets out details of each proposed resolution and other relevant information as required under the Listing Rules. The chairman of a general meeting exercises his power under the Articles of Association of the Company to put each proposed resolution to the vote by way of a poll. The procedures for demanding and conducting a poll are explained at the meeting prior to the polls being taken. Voting results are posted on the Company's website on the day of the general meeting.

INVESTOR RELATIONSHIP AND COMMUNICATION (CONTINUED)

The Company held two general meetings during the year under review. The attendance of each of the Directors and Alternate Director is as follows:

	Attendance/number of meetings	
	AGM held on 25 May 2018	EGM held on 28 November 2018
Mr. ZHANG Jian* *(Chairman) (appointed on 14 September 2018)*	0/0	1/1
Mr. ZHANG Rizhong*	1/1	0/1
Mr. CHU Lap Lik, Victor#	0/1	0/1
Mr. WANG Xiaoding#	1/1	1/1
Mr. TSE Yue Kit#	1/1	1/1
Ms. KAN Ka Yee, Elizabeth *(alternate to Mr. CHU Lap Lik, Victor #)*	0/1	0/1
Mr. KE Shifeng*	0/1	0/1
Mr. LIU Baojie**	0/1	0/1
Mr. TSANG Wah Kwong**	1/1	1/1
Dr. LI Fang**	0/1	0/1
Mr. HONG Xiaoyuan# *(Chairman) (resigned on 14 September 2018)*	1/1	0/0

\# *Executive Directors*
* *Non-executive Directors*
** *Independent Non-executive Directors*

ENVIRONMENTAL POLICY

The Company is an investment company listed under Chapter 21 of the Listing Rules. The Company has appointed an Investment Manager to manage its investment portfolio as well as corporate affairs and to deal with its day-to-day administration under the Investment Management Agreement. The Company, therefore, has no salaried employees, premises, manufacturing or other operations. The Investment Manager is requested to take into account the environmental matters (for example, minimising use of paper, the using of recycled paper, etc.) when managing the corporate affairs of the Company and to take into account the environmental, social and governance policies of potential investee companies as part of its investment process. Please refer to pages 69 to 72 of the Annual Report for the Company's Environmental, Social and Governance Report.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

In accordance with the requirements set forth in Appendix 27 to the Listing Rules, the Company hereby presents this Environmental, Social and Governance ("**ESG**") Report.

The Company is an investment company listed under Chapter 21 of the Listing Rules. The Company has appointed China Merchants China Investment Management Limited (the "**Investment Manager**") as its investment manager to manage its investment portfolio as well as corporate affairs and to deal with its day-to-day administration under the Investment Management Agreement. The Company, therefore, has no salaried employees, premises, manufacturing or other operations.

The Company discharges its corporate social responsibility through balancing the interests between its stakeholders, including its shareholders, and the community to optimise its investment portfolio, maximise shareholders' return and at the same time minimise the related social and environmental impact, in order to achieve the ultimate goal of operating as a sustainable corporation.

This report summarises the ESG policies in addressing the material ESG issues, as well as the compliance with laws and regulations relevant to those issues, of the Company and the Investment Manager, for the year ended 31 December 2018.

ENVIRONMENTAL PROTECTION

The Company supports environmental protection and is committed to minimising the impact of its existing business activities on the environment by supporting conservation and environmental protection programs even though it generates minimal pollutant.

To reduce the environmental impact, the Company has requested the Investment Manager to implement green office practices. Such measures include the using of energy-saving lightings and recycled paper, minimising use of paper, reducing energy consumption by switching off idle lightings, computers and electrical appliances, etc.

In 2018, the Company has implemented the following environmental initiatives:

- using recycled paper for printing the 2018 interim report;
- using double-sided printing and recycled paper for photocopying as much as possible;
- using electronic storage and communication wherever possible; and
- reducing travel through teleconferencing.

There were no non-compliance cases noted in relation to environmental laws and regulations for the year 2018.

SOCIAL COMMITMENT

For social commitment, the Company has requested the Investment Manager to take into account of the following in its operations:

Employment

To be an equal opportunity employer, the Investment Manager should provide a work environment that is free from all forms of discrimination on the basis of race, colour, creed, sex, age, religion, national origin, or disability. This includes all of its employment practices, such as hiring, transfer, recruitment, training, promotion, discipline, rates of pay and benefits, in order to ensure all employees and job applicants enjoy equal opportunities and fair treatment.

The salary and benefit levels of the Investment Manager's employees should be reviewed annually on a performance related basis within the general framework of the Investment Manager's or its parent company's salary system. A wide range of benefits, including comprehensive medical, life and disability insurance coverage and retirement schemes, should also be provided to the employees. Social, sporting, recreational and health activities should be arranged for the employees on a company-wide basis annually.

There were no non-compliance cases noted in relation to employment laws and regulations for the year 2018.

Health and Occupational Safety

The Investment Manager should strive to provide a safe and healthy work environment for all employees. It should manage the hygiene and safety of the office in accordance with the relevant laws and regulations of occupational health and safety. First aid, fire extinguishing, evacuation, leakage and escape exercises should be regularly performed.

There were no non-compliance cases noted in relation to health and safety laws and regulations during the year 2018.

Development and Training

The Investment Manager should aim to create an environment of continuous learning to facilitate their staff in developing their careers and equipping the knowledge and skills to better fulfil their roles and responsibilities. Training and development programs, including induction program, in-house training course, external course/seminar, should be provided on an ongoing basis throughout the Investment Manager.

SOCIAL COMMITMENT (CONTINUED)

Labour Standards

The Investment Manager should hire employees in accordance with the minimum working age with valid citizen identity in strict compliance with the requirements of the local labour law. Employment should be based on the principle of fairness, openness and willingness, and the Investment Manager should enter into labour contracts for legal employments without acts of forced labour.

There were no non-compliance cases noted in relation to labour standards laws and regulations during the year 2018.

Supply Chain Management

The Company and the Investment Manager have the highest respect for the laws and regulations that govern the way it goes about its business. The suppliers are encouraged to align their values with the Company and the Investment Manager, in respect of ESG issues, including but not limited to:

- employment to be based solely on the ability to perform the job and without any discrimination due to ethnicity, gender, age, disability or marital status;
- fair wages and all other legally mandated benefits be paid;
- provision of a safe and hygienic working environment which complies with local laws or practices;
- integration of environmental sustainability principles into business decisions; and
- community involvement.

Responsible Investment

The Company and the Investment Manager believe that attention to ESG matters is a prerequisite for long-term value creation. The Company and the Investment Manager always aim to invest responsibly as it executes its investment strategy.

As reflected in its mission statement, the Company strives to maximise investment returns to its investors while upholding the highest standards of integrity and acting in a way that enhances the reputation of the industry.

The Company and the Investment Manager take into consideration the ESG performance during the evaluation of potential investee companies, and request the investee companies to disclose significant non-compliance issues relating to ESG in a timely basis.

There were no non-compliance cases noted in relation to the Company's investment practices during the year 2018.

SOCIAL COMMITMENT (CONTINUED)

Anti-corruption

The Company and the Investment Manager are committed to achieving and maintaining the highest standards of openness, uprightness and accountability and all Directors of the Company and the Investment Manager and all staff of the Investment Manager are expected to observe the highest standards of ethical, personal and professional conduct. In addition to the guidelines on anti-bribery and anti-corruption, the Company and the Investment Manager have issued relevant whistle-blowing procedures and have conducted ongoing review of the effectiveness of the risk management and internal control systems on a regular basis.

There were no non-compliance cases noted in relation to corruption related laws and regulations during the year 2018.

Community Investment

In respect of community investment, the Company and the Investment Manager strive to be a part of the communities, to serve and contribute by promoting corporate social responsibility. The core values include:

- showing love, to give hope and to support the disadvantaged;
- encouraging compassion and empathy in the Investment Manager's employees;
- fostering a sense of community within the Company and the Investment Manager; and
- empowering through education.

INDEPENDENT AUDITOR'S REPORT

Deloitte. 德勤

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

Opinion

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 78 to 129, which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2018, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("**HKFRSs**") issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Basis for Opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing ("**HKSAs**") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants (the "**Code**"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
Valuation of Level 3 financial instruments	
We identified the valuation of Level 3 financial instruments as a key audit matter due to the degree of complexity involved in valuing the financial assets and liabilities, the significance of the judgment and estimates made by the management and the subjectivity in determination of Level 3 fair value given the lack of availability of market-based data as disclosed in note 5 to the consolidated financial statements. Please refer to note 5 to the consolidated financial statements for further details of the valuation techniques and significant unobservable inputs of material Level 3 financial instruments. The total fair value of financial assets and liabilities measured at fair value through profit or loss classified as Level 3, amounted to US$386.5 million and US$1.2 million respectively as at 31 December 2018 as disclosed in note 5 to the consolidated financial statements. The valuations of the aforesaid Level 3 financial instruments were performed by an independent valuer.	We obtained an understanding of the valuation techniques and the processes performed by the independent valuer and the management's review process of the work of the independent valuer with respect to the valuation of Level 3 financial instruments. We evaluated the competence, integrity and independence of the independent valuer; and their experience in conducting valuation of similar financial instruments. We obtained the respective independent valuation reports and discussed with management about the valuation of the Level 3 financial instruments, and together with our own internal valuation specialists, where necessary: (i) reviewed the appropriateness of the valuation techniques and assumptions based on the industry knowledge; (ii) tested the appropriateness of the key inputs by independently checking to the relevant external market data and/or relevant historical financial information; and (iii) inquired and assessed the rationale of the management's judgment on the key inputs.

Other Information

The directors of the Company are responsible for the other information. The other information comprises the information included in the annual report, but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Directors and Those Charged with Governance for the Consolidated Financial Statements

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion solely to you, as a body, in accordance with section 405 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. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient and appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in the independent auditor's report is HO Chung Kai.

Deloitte Touche Tohmatsu
Certified Public Accountants

Hong Kong
28 March 2019

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2018

	Notes	2018 US$	2017 US$
Net (loss) gain on financial assets at fair value through profit or loss	6	**(111,123,083)**	174,206,045
Investment income	7	**18,884,552**	15,207,807
Other gains		**656,419**	442,792
Administrative expenses		**(13,684,505)**	(21,022,596)
(Loss) profit before taxation	9	**(105,266,617)**	168,834,048
Taxation	12	**18,245,492**	(50,931,214)
(Loss) profit for the year		**(87,021,125)**	117,902,834
Other comprehensive (expense) income for the year			
Item that will not be reclassified subsequently to profit or loss			
Exchange difference arising on translation		**(26,793,189)**	35,547,816
Total comprehensive (expense) income for the year		**(113,814,314)**	153,450,650
(Loss) profit for the year attributable to owners of the Company		**(87,021,125)**	117,902,834
Total comprehensive (expense) income for the year attributable to owners of the Company		**(113,814,314)**	153,450,650
Basic (loss) earnings per share	14	**(0.571)**	0.774

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2018

	Notes	2018 US$	2017 US$
Non-current asset			
Financial assets at fair value through profit or loss	15	**579,151,538**	448,753,156
Current assets			
Financial assets at fair value through profit or loss	15	**55,058,638**	376,210,439
Other receivables and prepayments	16	**5,239,397**	96,135
Cash and cash equivalents	17	**48,450,040**	47,767,265
		108,748,075	424,073,839
Current liabilities			
Other payables	18	**27,620,833**	38,172,583
Taxation payable	19	**396,223**	5,285,658
		28,017,056	43,458,241
Net current assets		**80,731,019**	380,615,598
Total assets less current liabilities		**659,882,557**	829,368,754
Non-current liabilities			
Financial liabilities designated at fair value through profit or loss	20	**1,306,574**	1,451,162
Deferred taxation	21	**83,520,815**	122,291,478
		84,827,389	123,742,640
Net assets		**575,055,168**	705,626,114
Capital and reserves			
Share capital	23	**139,348,785**	139,348,785
Reserves		**70,366,095**	99,871,339
Retained profits		**365,340,288**	466,405,990
Equity attributable to owners of the Company		**575,055,168**	705,626,114
Net asset value per share	25	**3.775**	4.632

The consolidated financial statements on pages 78 to 129 were approved and authorised for issue by the Board of Directors on 28 March 2019 and are signed on its behalf by:

Mr. WANG Xiaoding
Director

Mr. TSE Yue Kit
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2018

	Share capital *US$*	Translation reserve *US$*	General reserve *US$*	Retained profits *US$*	Equity attributable to owners of the Company *US$*
Balance at 1 January 2017	139,348,785	50,107,707	13,082,871	358,776,082	561,315,445
Profit for the year	—	—	—	117,902,834	117,902,834
Exchange difference on translation	—	35,547,816	—	—	35,547,816
Total comprehensive income for the year	—	35,547,816	—	117,902,834	153,450,650
2016 final dividend paid (note 13)	—	—	—	(9,139,981)	(9,139,981)
Transfer to general reserve	—	—	1,132,945	(1,132,945)	—
Balance at 31 December 2017	139,348,785	85,655,523	14,215,816	466,405,990	705,626,114
Balance at 1 January 2018	**139,348,785**	**85,655,523**	**14,215,816**	**466,405,990**	**705,626,114**
Loss for the year	**—**	**—**	**—**	**(87,021,125)**	**(87,021,125)**
Exchange difference on translation	**—**	**(26,793,189)**	**—**	**—**	**(26,793,189)**
Total comprehensive expense for the year	**—**	**(26,793,189)**	**—**	**(87,021,125)**	**(113,814,314)**
2017 final dividend paid (note 13)	**—**	**—**	**—**	**(9,139,981)**	**(9,139,981)**
2018 special interim dividend paid (note 13)	**—**	**—**	**—**	**(7,616,651)**	**(7,616,651)**
Reversal of transfer to general reserve in prior year	**—**	**—**	**(2,712,055)**	**2,712,055**	**—**
Balance at 31 December 2018	**139,348,785**	**58,862,334**	**11,503,761**	**365,340,288**	**575,055,168**

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 STATEMENT OF CASH FLOWS

For the year ended 31 December 2018

	2018 US$	2017 US$
OPERATING ACTIVITIES		
(Loss) profit before taxation	(105,266,617)	168,834,048
Adjustments for:		
Interest income	(723,039)	(269,311)
Dividend income from equity investments	(18,161,513)	(14,938,496)
Net loss (gain) on financial assets at fair value through profit or loss	111,123,083	(174,206,045)
Operating cash flows before movements in working capital	(13,028,086)	(20,579,804)
Proceeds from disposal of financial assets at fair value through profit or loss	66,701,236	72,919,073
Return of capital from financial assets at fair value through profit or loss	2,403,866	4,584,015
Purchases of financial assets at fair value through profit or loss	(19,874,030)	(47,978,329)
Decrease (increase) in other receivables and prepayments	33,512	(35,212)
(Decrease) increase in other payables	(10,805,990)	11,469,831
Increase (decrease) in financial liabilities designated at fair value through profit or loss	109,652	(124,423)
Cash generated from operations	25,540,160	20,255,151
Interest received	675,852	225,377
Dividends received	13,031,926	22,604,521
Income taxes paid	(19,582,377)	(28,127,865)
NET CASH GENERATED FROM OPERATING ACTIVITIES	19,665,561	14,957,184
CASH USED IN FINANCING ACTIVITIES		
Dividends paid	(16,756,632)	(9,139,981)
NET INCREASE IN CASH AND CASH EQUIVALENTS	2,908,929	5,817,203
CASH AND CASH EQUIVALENTS AS AT 1 JANUARY	47,767,265	37,491,601
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	(2,226,154)	4,458,461
CASH AND CASH EQUIVALENTS AS AT 31 DECEMBER	48,450,040	47,767,265

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

1. GENERAL INFORMATION

China Merchants China Direct Investments Limited (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 of the Annual Report. The Company and its subsidiaries are collectively referred to as the Group.

The Company acts as an investment holding company. The activities of the subsidiaries are set out in note 29. The major sources of income of the Group arising in the course of the ordinary activities which are the revenue of the Group are net (loss) gain on financial assets at fair value through profit or loss ("**FVTPL**") and investment income.

The functional currency of the Company is Renminbi ("**RMB**"). For the purpose of convenience of the consolidated financial statements users, the consolidated financial statements are presented in United States dollars ("**USD**").

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

New HKFRSs that are mandatorily effective for the current year

The Group has applied the following new HKFRS issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**") for the first time in the current year that is relevant to the business operation of the Group:

HKFRS 9	Financial instruments

The new HKFRS mentioned above has been applied by the Group in accordance with the relevant transition provision which results in changes in accounting policies, amounts reported and/or disclosures as described below.

HKFRS 9 *Financial Instruments*

In the current year, the Group has applied HKFRS 9 *Financial Instruments* and the related consequential amendments to other HKFRSs. HKFRS 9 introduces new requirements for 1) the classification and measurement of financial assets and financial liabilities; 2) expected credit losses ("**ECL**") for financial assets; and 3) general hedge accounting.

The Group has applied HKFRS 9 in accordance with the transition provision set out in HKFRS 9, i.e. applied the classification and measurement requirements (including impairment under ECL model) retrospectively to instruments that have not been derecognised as at 1 January 2018 (date of initial application) and has not applied the requirements to instruments that have already been derecognised as at 1 January 2018. The difference between carrying amounts as at 31 December 2017 and the carrying amounts as at 1 January 2018, if any, are recognised in the opening retained profits and other components of equity, without restating comparative information.

Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 39 *Financial Instruments: Recognition and Measurement*.

Accounting policies resulting from application of HKFRS 9 are disclosed in note 3.

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (CONTINUED)

HKFRS 9 *Financial Instruments* (continued)

Summary of effects arising from initial application of HKFRS 9

The table below illustrates the classification and measurement of financial assets at the date of initial application, i.e. 1 January 2018.

	Financial assets designated at FVTPL *US$*	Financial assets at FVTPL required by HKFRS 9 *US$*
Closing balance at 31 December 2017 – HKAS 39	824,963,595	—
Effect arising from initial application of HKFRS 9: Reclassification (Note 1)	(824,963,595)	824,963,595
Opening balance at 1 January 2018	—	824,963,595

Note 1: Financial assets at FVTPL and/or designated at FVTPL

At the date of initial application, the Group no longer applied designation as measured at FVTPL for the portfolio of financial assets which is managed and its performance is evaluated on a fair value basis, as these financial assets are required to be measured at FVTPL under HKFRS 9. As a result, these investments of US$824,963,595 were reclassified from financial assets designated at FVTPL to financial assets at FVTPL.

Impairment under ECL model

ECL for other financial assets at amortised cost, including cash and cash equivalents and other receivables, are assessed on 12-month ECL ("**12m ECL**") basis as there had been no significant increase in credit risk since initial recognition. As at 1 January 2018, no additional credit loss allowance has been recognised against retained profits as the results of the assessment and the impact are considered as immaterial.

Except as described above, the application of other new and amendments to HKFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or on disclosures set out in these consolidated financial statements.

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (CONTINUED)

New and amendments to HKFRSs in issue but not yet effective

The Group has not early applied the following new and amendments to HKFRS that have been issued but are not yet effective that are relevant to the business operation of the Group:

HK(IFRIC) - Int 23	Uncertainty over income tax treatments[1]
Amendments to HKFRS 10 and HKAS 28	Sale or contribution of assets between an investor and its associate or joint venture[2]
Amendments to HKAS 1 and HKAS 8	Definition of material[3]
Amendments to HKAS 28	Long-term interests in associates and joint ventures[1]
Amendments to HKFRSs	Annual improvements to HKFRSs 2015 - 2017 Cycle[1]

1 Effective for annual periods beginning on or after 1 January 2019.
2 Effective for annual periods beginning on or after a date to be determined.
3 Effective for annual periods beginning on or after 1 January 2020.

The management anticipates that the application of all new and amendments to HKFRSs will have no material impact on the consolidated financial statements in the foreseeable future.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with HKFRSs issued by HKICPA. 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 (the "**Listing Rules**") and by the Hong Kong Companies Ordinance.

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

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for measurements that have some similarities to fair value but are not fair value, such as value in use in HKAS 36 *Impairment of Assets*.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

In addition, for financial reporting purposes, fair value measurements are categorised into Levels 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The principal accounting policies are set out below.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of consolidation (continued)

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Investments in associates and joint ventures

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

When an investment in an associate or a joint venture is held by, or is held indirectly through, a group entity that is a venture capital organisation and similar entities, the Group may elect to measure investments in those associates and joint ventures at FVTPL in accordance with HKFRS 9.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instrument. For 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.

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 at FVTPL and financial liabilities designated at FVTPL) 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 at FVTPL or financial liabilities designated at FVTPL are recognised immediately in profit or loss.

The effective interest method is a method of calculating the amortised cost of a debt instrument 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 debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis for debt instruments other than those classified as financial assets at FVTPL, of which interest income is included in net gain or loss on financial assets at FVTPL.

Financial assets

Classification and subsequent measurement of financial assets (upon application of HKFRS 9 in accordance with transitions in note 2)

Financial assets that meet the following conditions are subsequently measured at amortised cost:

- the financial asset is held within a business model whose objective is to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (continued)

Financial assets (continued)

Classification and subsequent measurement of financial assets (upon application of HKFRS 9 in accordance with transitions in note 2) (continued)

Debt instruments that meet the following conditions are subsequently measured at fair value through other comprehensive income ("**FVTOCI**"):

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling the financial asset; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All other financial assets are subsequently measured at FVTPL, except that at the date of initial application/initial recognition of a financial asset the Group may irrevocably elect to present subsequent changes in fair value of an equity investment in other comprehensive income ("**OCI**") if that equity investment is neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which HKFRS 3 *Business Combinations* applies.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near term; or
- on initial recognition, it is a part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

In addition, the Group may irrevocably designate a financial asset that is required to be measured at the amortised cost or FVTOCI as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (continued)

Financial assets (continued)

Classification and subsequent measurement of financial assets (upon application of HKFRS 9 in accordance with transitions in note 2) (continued)

Amortised cost and interest income

Interest income is recognised using the effective interest method for financial assets measured subsequently at amortised cost and debt instruments/receivables subsequently measured at FVTOCI. Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired. For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset from the next reporting period. If the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset from the beginning of the reporting period following the determination that the asset is no longer credit-impaired.

Financial assets at FVTPL

Financial assets that do not meet the criteria for being measured at amortised cost or FVTOCI or designated as FVTOCI are measured at FVTPL.

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognised in profit or loss. The net gain or loss recognised in profit or loss, excludes any dividend earned on the financial assets but includes the interest earned on the financial assets and is included in the "Net (loss) gain on financial assets at fair value through profit or loss" line item.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (continued)

Financial assets (continued)

Classification and subsequent measurement of financial assets (upon application of HKFRS 9 in accordance with transitions in note 2) (continued)

Impairment of financial assets (upon application of HKFRS 9 with transitions in accordance with note 2)

The financial assets of other receivables and cash and cash equivalents of the Group are subject to impairment assessment under ECL model in HKFRS 9. The assessment is updated at each reporting date to reflect changes in credit risk since initial recognition.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12m ECL represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessments are done based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

The Group measures the loss allowance equal to 12m ECL, unless when there has been a significant increase in credit risk since initial recognition, the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

Significant increase in credit risk

In assessing whether the credit risk has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience, market condition, financial health of counterparty and other forward-looking information that is available without undue cost or effort.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (continued)

Financial assets (continued)

Classification and subsequent measurement of financial assets (upon application of HKFRS 9 in accordance with transitions in note 2) (continued)

Impairment of financial assets (upon application of HKFRS 9 with transitions in accordance with note 2) *(continued)*

Significant increase in credit risk (continued)

Despite the aforegoing, the Group assumes that the credit risk on a debt instrument has not increased significantly since initial recognition if the debt instrument is determined to have low credit risk at the reporting date. A debt instrument is determined to have low credit risk if i) it has a low risk of default; ii) the borrower has a strong capacity to meet its contractual cash flow obligations in the near term; and iii) adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations. The Group considers a debt instrument to have low credit risk when it has an internal or external credit rating of "investment grade" as per globally understood definitions.

The Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

Definition of default

The Group considers that default has occurred when the instrument is more than 90 days past due, unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (continued)

Financial assets (continued)

Classification and subsequent measurement of financial assets (upon application of HKFRS 9 in accordance with transitions in note 2) (continued)

Impairment of financial assets (upon application of HKFRS 9 with transitions in accordance with note 2) *(continued)*

Credit-impaired financial assets

The Group considers a financial asset being credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired may include observable data about the following events:

(a) significant financial difficulty of the issuer;

(b) a breach of contract, such as a default;

(c) it is becoming probable that the issuer of the financial asset will enter bankruptcy or other financial reorganisation; or

(d) the disappearance of an active market for that financial asset because of financial difficulties.

Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information.

ECL is estimated as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition.

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit-impaired, in which case interest income is calculated based on amortised cost of the financial asset.

The Group recognises an impairment gain or loss in profit or loss for all financial instruments by adjusting their carrying amount.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (continued)

Financial assets (continued)

Classification and subsequent measurement of financial assets (before application of HKFRS 9 on 1 January 2018)

Financial assets are classified into the following specified categories: financial assets at FVTPL and other receivables.

Financial assets at FVTPL

A financial asset is designated at FVTPL upon initial recognition if:

- it is designated as at FVTPL and 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 measured at FVTPL.

At the end of the reporting period subsequent to initial recognition, financial assets at FVTPL are measured at fair value, with any gains or losses arising from remeasurement 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 earned on the financial assets which is included in the investment income but includes the interest earned on the financial assets.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (continued)

Financial assets (continued)

Classification and subsequent measurement of financial assets (before application of HKFRS 9 on 1 January 2018) (continued)

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including other receivables and cash and cash equivalents) are carried at amortised cost using the effective interest method, less any impairment (see accounting policy on impairment of financial assets below).

Interest income is recognised by applying the effective interest rate, except for short-term receivables where the recognition of interest would be immaterial.

Impairment of financial assets (before application of HKFRS 9 on 1 January 2018)

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial assets, the estimated future cash flows of the financial assets have been affected.

For all financial assets measured at amortised cost, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as default or delinquency in interest or principal payments; or
- it is becoming probable that the borrower will enter bankruptcy or financial reorganisation.

The amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets. Changes in the carrying amount of the allowance account are recognised in profit or loss. When other receivables are considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (continued)

Financial assets (continued)

Impairment of financial assets (before application of HKFRS 9 on 1 January 2018) *(continued)*

If, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

On derecognition of an investment in a debt instrument classified as at FVTOCI upon application of HKFRS 9, the cumulative gain or loss previously accumulated in the FVTOCI reserve is reclassified to profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (continued)

Financial liabilities and equity instruments

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

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recognised at the proceeds received, net of direct issue costs. Repurchase of the Company's own equity instruments is recognised and deducted directly in equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

Financial liabilities

The Group's financial liabilities are generally classified into financial liabilities designated at FVTPL and other financial liabilities. The accounting policies adopted in respect of financial liabilities are set out below.

Financial liabilities designated at FVTPL

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

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial liability 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 HKFRS 9/HKAS 39 permits the entire combined contract (asset or liability) to be measured at FVTPL.

Upon application of HKFRS 9, for financial liabilities that are designated as at FVTPL, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is recognised in OCI, unless the recognition of the effects of changes in the liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk that are recognised in OCI are not subsequently reclassified to profit or loss; instead, they are transferred to retained profits upon derecognition of the financial liability.

Prior to application of HKFRS 9 on 1 January 2018, financial liabilities designated at FVTPL are measured at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss includes any interest paid on the financial liabilities, if any. Fair value is determined in the manner described in note 5.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (continued)

Financial liabilities and equity instruments (continued)

Financial liabilities *(continued)*

Financial liabilities at amortised cost

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

Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Revenue recognition (prior to 1 January 2018)

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income is accrued on a time apportionment 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 on initial recognition.

Dividend income from investments, including financial assets at FVTPL, is recognised when the shareholders' rights to receive payment have been established provided that it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably.

Realised profits or losses from financial assets at FVTPL and financial liabilities designated at FVTPL are recognised on the transaction dates when the relevant contract notes are executed whilst the unrealised profits or losses are recognised from valuation at the end of the reporting period in accordance with the accounting policies for financial instruments (see the accounting policies above).

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 recognised at the rates of exchange prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's operations are translated into the presentation currency of the Group (i.e. USD) using exchange rates prevailing at the end of each reporting period. Income and expense items are translated at the average exchange rates for the period. Exchange differences arising, if any, are recognised in OCI and accumulated in equity under the heading of translation reserve.

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 (loss) profit before taxation as reported in the consolidated statement of profit or loss and other comprehensive income because of items of income or expense that are taxable or deductible in other years and items of income or expense 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 end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amount of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those 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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Taxation (continued)

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, 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. Deferred tax assets arising from deductible temporary differences associated with such investments are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of the reporting period 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 assets to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in OCI or directly in equity, in which case the current and deferred tax are also recognised in OCI or directly in equity, respectively.

4. KEY SOURCE OF ESTIMATION UNCERTAINTY

The key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period 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 FVTPL and financial liabilities designated at FVTPL

As indicated in notes 5, 15 and 20, 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 at FVTPL and financial liabilities designated at FVTPL are determined in accordance with generally accepted pricing models. To the extent practical, models use only observable data. However, areas such as credit risk of the Group and counterparties, volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect the estimated fair value of financial instruments. The values assigned to the financial assets and liabilities are based upon available information and professional judgment. They do not necessarily represent amounts which might ultimately be realised, since such amounts depend on future circumstance and cannot be reasonably determined until the individual position is realised.

5. FINANCIAL INSTRUMENTS

Categories of financial instruments

	2018 *US$*	2017 *US$*
Financial assets		
At FVTPL	**634,210,176**	824,963,595
Amortised cost/loans and receivables (including cash and cash equivalents)	**53,689,437**	47,863,400
Financial liabilities		
Amortised cost	**8,013,346**	18,565,096
Designated at FVTPL	**1,306,574**	1,451,162

Financial risk management objective and policies

The Group's major financial instruments include financial assets at FVTPL, other receivables, cash and cash equivalents, other payables and financial liabilities designated at FVTPL. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (including currency risk, interest rate risk and price risk), credit risk and liquidity risk. 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 undertakes certain transactions which expose the Group to foreign currency risk. The related balances include other receivables and prepayments, cash and cash equivalents and other payables, denominated in a currency other than the functional currency, and so exposures to exchange rate fluctuations arise.

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

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

	2018	2017
	US$	*US$*
Monetary assets		
USD	**28,259,664**	7,609,974
Hong Kong Dollar	**404,312**	3,252,447
Monetary liabilities		
USD	**4,389,992**	15,635,719
Hong Kong Dollar	**482,480**	400,157

Foreign currency sensitivity

For the currency risk of the Group, if the exchange rate of RMB against USD had increased/decreased by 5%, the Group's after taxation result for the year would decrease/increase by US$1,196,000 (2017: increase/decrease by US$402,000). If the exchange rate of RMB against Hong Kong Dollar had increased/decreased by 5%, the Group's after taxation result for the year would increase/decrease by US$4,000 (2017: decrease/increase by US$143,000).

In the opinion of the management, the sensitivity analysis is unrepresentative of the foreign currency risk as the year end exposure does not reflect the exposure during the year.

Interest rate risk

The Group is exposed to cash flow interest rate risk through the impact of rate changes on interest bearing financial assets (mainly short-term bank deposits at market rate) at market rates.

5. FINANCIAL INSTRUMENTS (CONTINUED)

Market risk (continued)

Interest rate risk (continued)

Interest rate sensitivity

No sensitivity analysis on cash flow interest rate risk is prepared as the Group's interest bearing cash and cash equivalents at the end of the reporting period are mainly at fixed rate.

Price risk

The Group is exposed to price risk through its investments as disclosed in note 15 and financial liabilities in note 20 which are measured at FVTPL.

Price sensitivity

The sensitivity analyses below have been determined based on the exposure to price risks at the end of the reporting period.

If the market bid prices of the listed equity securities had been 20% (2017: 20%) higher/lower, the Group's after taxation result for the year would decrease/increase by US$39,374,000 (2017: increase/decrease by US$59,268,000). This is mainly attributable to the changes in fair values of the listed equity investments held by the Group.

If the fair value of the investments other than listed equity securities had been 20% (2017: 20%) higher/lower, the Group's after taxation result for the year would decrease/increase by US$58,271,000 (2017: increase/decrease by US$67,098,000). This is mainly attributable to the changes in fair values of the investments held by the Group.

In the opinion of the management, the sensitivity analysis is unrepresentative of the price risk as the year end exposure does not reflect the exposure during the year.

5. FINANCIAL INSTRUMENTS (CONTINUED)

Credit risk and impairment assessment

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

The Group's financial assets include financial assets at FVTPL, other receivables, and cash and cash equivalents.

As at 31 December 2018, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position.

Although the cash and cash equivalents are concentrated with 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 regard, the management considers that the Group's credit risk on such authorised institutions is low. Accordingly, cash and cash equivalents are subject to 12m ECL assessment. In the opinion of the management, the 12m ECL's balance is not significant.

For the purpose of internal credit risk management, the Group uses past due information to assess whether credit risk has increased significantly since initial recognition of other receivables of US$5,239,397. Such balance is not past due, the Group considers there is no significant change in credit risks of these balances since initial recognition. Accordingly, they are subject to 12m ECL assessment. In the opinion of the management, the 12m ECL's balance is not significant.

The table below details the credit risk exposures of the Group's financial assets, which are subject to ECL assessment:

	Notes	External credit rating	12m or lifetime ECL	2018 Gross carrying amount *US$*
Cash and cash equivalents	17	A	12m ECL	**48,450,040**
Other receivables	16	N/A	12m ECL	**5,239,397**

The Group has concentration of credit risk in a single geographic area in the PRC.

5. FINANCIAL INSTRUMENTS (CONTINUED)

Liquidity risk

Liquidity risk is the risk that the Group is unable to meet their payment obligations associated with its financial liabilities when they fall due. The Group manages liquidity risk by maintaining adequate reserves, as well as continuously monitoring forecast and actual cash flows.

Internally generated cash flow is the main source of funds to finance the operations of the Group. The Group regularly reviews the major funding positions to ensure adequate financial resources are available to meet its financial obligations. In the opinion of the management, taking into account of the availability of marketable securities that can be disposed of by subsidiaries of the Company, the Group is able to meet its financial obligations when they fall due.

The Group's financial liabilities represent other payables (management fee accruals) and financial liabilities designated at FVTPL related to sub-participation agreements. Apart from financial liabilities designated at FVTPL which is repayable upon realisation of the corresponding investments, the other financial liabilities are all interest free and repayable on demand. In the opinion of the management, the liquidity risk of the Group is not significant.

5. FINANCIAL INSTRUMENTS (CONTINUED)

Fair value measurement of financial instruments

Fair value of the Group's financial assets and financial liabilities that are measured at fair value on a recurring basis

Most of the Group's financial assets and financial liabilities are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial assets and financial liabilities are determined (in particular, the valuation techniques and inputs used), as well as the level of the fair value hierarchy into which the fair value measurements are categorised (Levels 1 to 3) based on the degree to which the inputs to the fair value measurements are observable.

Financial assets	31 December 2018 US$	31 December 2017 US$	Fair value hierarchy	Valuation techniques	Significant unobservable input(s)	31 December 2018 Range	31 December 2017 Range	Relationship of unobservable inputs to fair value	31 December 2018 Increase(+)/decrease(-) in fair value of assets if 10% increase/decrease of the unobservable inputs (Note 2) US$	31 December 2017 Increase(+)/decrease(-) in fair value of assets if 10% increase/decrease of the unobservable inputs (Note 2) US$
Financial assets at FVTPL										
Listed equity securities (Note 1)	247,736,786	363,477,251	Level 1	Quoted bid prices in active market	N/A	N/A	N/A	N/A	N/A	N/A
Listed equity securities within lock-up period (Note 1)	9,909,689	24,402,375	Level 3	Quoted bid price in active market and adjusted for lack of marketability	– Discount rate for lack of marketability	4.7% - 4.9%	4.4% - 4.7%	The higher the discount rate, the lower the fair value	-51,000/ +51,000	-116,000/ +116,000
Equity securities (including equity securities traded on the National Equities Exchange and Quotations ("**New Third Board**") and unlisted equity securities) and unlisted preferred equity (Note 1)	219,314,975	296,835,554	Level 3	Market comparable companies	– Earnings multiples – Revenue multiples – Book value multiples	16.6x - 42.0x 2.3x - 3.5x 1.3x - 3.2x	35.7x - 90.6x 3.0x - 4.1x 1.7x - 5.3x	The higher the multiples, the higher the fair value	+21,340,000/ -21,340,000	+30,662,000/ -30,662,000
					– Discount rate for lack of marketability and specific risk	51%	54%	The higher the discount rate, the lower the fair value	-22,402,000/ +22,402,000	-34,159,000/ +34,159,000
Unlisted debt investments (Notes 1 and 4)	76,519,700	39,799,822	Level 3	Discounted cash flow	– Discount rate	5.2%	6.2%	The higher the discount rate, the lower the fair value	-870,000/ +870,000	-921,000/ +921,000
Unlisted equity (Note 1)	62,822,008	58,083,621	Level 3	Fund's net asset value	N/A	N/A	N/A	N/A	N/A	N/A
Equity securities traded on New Third Board (Notes 1 and 5)	–	7,853,295	Level 3	Recent transaction price	N/A	N/A	N/A	N/A	N/A	N/A
Unlisted debt investment (Notes 1 and 5)	–	30,608,185	Level 3	Recent transaction price	N/A	N/A	N/A	N/A	N/A	N/A
Unlisted equity securities (Note 1)	17,907,018	3,903,492	Level 3	Recent transaction price	N/A	N/A	N/A	N/A	N/A	N/A
Closing balance	634,210,176	824,963,595								

5. FINANCIAL INSTRUMENTS (CONTINUED)

Fair value measurement of financial instruments (continued)

Fair value of the Group's financial assets and financial liabilities that are measured at fair value on a recurring basis (continued)

Note 1: Financial assets at FVTPL represent those are measured at fair value with subsequent fair value gains or losses to be recognised in profit or loss.

Note 2 Amount represents increase(+)/decrease(-) in fair value of the financial assets if the unobservable inputs were 10% increase/decrease while all the other variables were held constant.

Note 3: The analysis of financial liabilities is set out in note 20.

Note 4: Pursuant to the agreements, the loans, subject to the fulfillment of certain precedent conditions which are not under the control of the Group, could be converted into equity interest of Rong Bao Zhai Culture Co., Ltd. and Qinghai Provincial Qinghai Lake Tourism Group Co., Ltd., respectively. Given that the conditions are not under the control of the Group, the Directors consider that the conditions of conversion were not fulfilled as at 31 December 2018.

Note 5: As at 31 December 2018, the equity securities traded on the New Third Board and unlisted debt investment, which were valued at the recent transaction prices at prior year, were valued under the technique of market comparable companies and discounted cash flow, respectively, as the recent transaction prices were no longer available.

The Directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values at the both year ends.

	Level 1	**Level 2**	**Level 3**	**2018 Total**
	US$	***US$***	***US$***	***US$***
Financial assets at FVTPL	**247,736,786**	**–**	**386,473,390**	**634,210,176**
Financial liabilities designated at FVTPL	**137,801**	**–**	**1,168,773**	**1,306,574**

	Level 1	Level 2	Level 3	2017 Total
	US$	*US$*	*US$*	*US$*
Financial assets at FVTPL	363,447,251	–	461,486,344	824,933,595
Financial liabilities designated at FVTPL	105,277	–	1,345,885	1,451,162

5. FINANCIAL INSTRUMENTS (CONTINUED)

Fair value measurement of financial instruments (continued)

Fair value of the Group's financial assets and financial liabilities that are measured at fair value on a recurring basis (continued)

Reconciliation of Level 3 fair value measurements of financial assets:

	Financial assets at FVTPL US$
Balance at 1 January 2017	366,641,170
Gains recognised in profit or loss	54,334,654
Exchange differences arising on translation	20,026,991
Purchases	63,932,072
Disposals	(38,864,528)
Return of capital	(4,584,015)
Balance at 31 December 2017	461,486,344
Balance at 1 January 2018	**461,486,344**
Losses recognised in profit or loss	**(63,374,348)**
Exchange differences arising on translation	**(17,498,512)**
Purchases	**19,874,030**
Return of capital	**(2,403,866)**
Transfer out of Level 3 to Level 1	**(11,610,258)**
Balance at 31 December 2018	**386,473,390**

Of the total losses for the year included in profit or loss, loss of US$64,938,544 (2017: gain of US$55,252,554) relates to financial assets at FVTPL categorised in Level 3 held at year end. Fair value gains or losses on financial assets at FVTPL are included in "Net (loss) gain on financial assets at fair value through profit or loss". Transfers between levels of the fair value measurement hierarchy are recognised as of the date of the event or change in circumstances that caused the transfer.

During the year ended 31 December 2018, the Group's financial assets at FVTPL were transferred from Level 3 to Level 1 since the lock-up period for those assets (i.e. listed shares with quoted bid prices in active market) has expired during the year.

5. FINANCIAL INSTRUMENTS (CONTINUED)

Fair value measurement of financial instruments (continued)

Fair value of the Group's financial assets and financial liabilities that are measured at fair value on a recurring basis (continued)

Reconciliation of fair value measurements of financial liabilities:

	Designated at FVTPL US$
Balance at 1 January 2017	1,221,641
Additions	194,999
Disposals	(309,058)
Change in fair value	343,580
Balance at 31 December 2017	1,451,162
Balance at 1 January 2018	**1,451,162**
Additions	**146,621**
Change in fair value	**(291,209)**
Balance at 31 December 2018	**1,306,574**

Fair value measurements and valuation processes

A guideline on the fair value measurements has been applied to the regular assessment of fair value of an asset. Fair value of listed investments, except those listed on the New Third Board, is determined based on the quoted market bid prices available on the relevant exchanges. Fair value of listed investments within lock-up period is assessed based on the quoted market bid prices available on the relevant exchanges and adjusted for lack of marketability. Fair value of certain unlisted investments is arrived at by reference to their recent transaction prices. For unlisted investments and investments listed on the New Third Board with no recent transactions noted, their fair values are arrived at on the basis of valuations carried out by an independent valuer on a half-yearly basis. Determination of fair value is based on the best information available in the circumstances and includes appropriate risk adjustments for lack of marketability. Factors considered in determining the fair value of these investments include multiples of comparable companies listed on stock exchanges and discount rates based on market information. The valuation report prepared by the independent valuer is reported to and reviewed by the management on a half-yearly basis.

6. NET (LOSS) GAIN ON FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

The following is the analysis of net (loss) gain on investments of the Group for the year ended 31 December 2018. The amounts of realised (loss) gain represent the fair value difference between the beginning of the year or purchase date in the year and the disposal date of financial instruments while the amounts of unrealised (loss) gain represent the change of fair value during the year of financial instruments held by the Group as at the year end:

	2018	2017
	US$	*US$*
Net (loss) gain on financial assets at FVTPL		
Listed investments		
Realised	**4,463,675**	2,906,761
Unrealised	**(61,422,643)**	117,183,692
Unlisted investments		
Realised	**—**	(917,900)
Unrealised	**(54,164,115)**	55,033,492
Total	**(111,123,083)**	174,206,045

7. INVESTMENT INCOME

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

	2018	2017
	US$	*US$*
Interest income on bank deposits	**723,039**	269,311
Dividend income on financial assets at FVTPL		
Listed equity investments	**7,878,780**	9,846,963
Unlisted equity investments	**10,282,733**	5,091,533
	18,161,513	14,938,496
Total	**18,884,552**	15,207,807

7. INVESTMENT INCOME (CONTINUED)

The following is an analysis of investment income earned on financial assets, by category of asset:

	2018	2017
	US$	*US$*
Interest income for financial assets not at FVTPL	**723,039**	269,311
Investment income earned on financial assets at FVTPL	**18,161,513**	14,938,496
Total	**18,884,552**	15,207,807

8. SEGMENTAL INFORMATION

The Group's reportable segments, based on information reported to the chief operating decision maker for the purposes of resources allocation and performance assessment are as follows:

(a) Financial services: investees engaged in financial services activities.

(b) Culture, media and consumption: investees engaged in culture, media and consumption activities.

(c) Information technology: investees engaged in information technology activities.

The Group also invested in manufacturing, energy and resources, agriculture, education and medical and pharmaceutical activities, of which manufacturing, energy and resources and medical and pharmaceutical activities were being reported as separate segments in prior years. None of these segments met the quantitative thresholds for the reportable segments in both current and prior years. Accordingly, these were grouped in "Others" during the current year and comparative figures have been represented. Investment in medical and pharmaceutical activities had been fully disposed of during 2017.

Information regarding the above segments is reported below.

8. SEGMENTAL INFORMATION (CONTINUED)

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

For the year ended 31 December 2018

	Reportable segments					
	Financial services US$	Culture, media and consumption US$	Information technology US$	Total reportable segments US$	Others US$	Total US$
Net loss on financial assets at FVTPL	(70,719,453)	(20,642,973)	(12,869,034)	(104,231,460)	(6,891,623)	(111,123,083)
Dividend income on financial assets at FVTPL	15,646,461	2,445,364	69,688	18,161,513	—	18,161,513
Other gains	—	656,419	—	656,419	—	656,419
Segment loss	(55,072,992)	(17,541,190)	(12,799,346)	(85,413,528)	(6,891,623)	(92,305,151)
Unallocated:						
– Administrative expenses						(13,684,505)
– Interest income on bank deposits						723,039
Loss before taxation						(105,266,617)

For the year ended 31 December 2017 (restated)

	Reportable segments					
	Financial services US$	Culture, media and consumption US$	Information technology US$	Total reportable segments US$	Others US$	Total US$
Net gain on financial assets at FVTPL	115,731,800	27,966,583	20,328,808	164,027,191	10,178,854	174,206,045
Dividend income on financial assets at FVTPL	10,239,404	3,803,622	66,614	14,109,640	828,856	14,938,496
Other gains	—	442,792	—	442,792	—	442,792
Segment profit	125,971,204	32,212,997	20,395,422	178,579,623	11,007,710	189,587,333
Unallocated:						
– Administrative expenses						(21,022,596)
– Interest income on bank deposits						269,311
Profit before taxation						168,834,048

8. SEGMENTAL INFORMATION (CONTINUED)

Segment (loss) profit represents the net (loss) gain on financial assets at FVTPL including net (loss) gain on investments, the corresponding dividend income and other gains earned by each segment without allocation of central administrative expenses (including fees to China Merchants China Investment Management Limited (the "**Investment Manager**")) and interest income on bank deposits. This is the measure reported to the chief operating decision maker for the purposes of resources allocation and performance assessment. No separate segment revenue (i.e. investment income) is disclosed as it had been presented in the computation of segment (loss) profit.

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

	2018 **US$**	2017 *US$* *(restated)*
Segment assets		
Financial services	**406,212,808**	558,939,886
Culture, media and consumption	**152,030,035**	179,312,367
Information technology	**51,919,568**	49,089,108
Total assets for reportable segments	**610,162,411**	787,341,361
Others	**29,177,353**	37,622,234
Unallocated	**48,559,849**	47,863,400
Consolidated assets	**687,899,613**	872,826,995
Segment liabilities		
Financial services	**129,624**	100,126
Culture, media and consumption	**612,394**	735,830
Information technology	**218,821**	115,559
Total liabilities for reportable segments	**960,839**	951,515
Others	**4,716,874**	4,403,139
Unallocated	**107,166,732**	161,846,227
Consolidated liabilities	**112,844,445**	167,200,881

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

All assets are allocated to reportable segments other than assets of non-reportable segments, certain other receivables and prepayments, cash and cash equivalents, and all liabilities are allocated to reportable segments other than liabilities of non-reportable segments, certain other payables, current and deferred tax liabilities.

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

9. (LOSS) PROFIT BEFORE TAXATION

	2018 **US$**	2017 US$
(Loss) profit before taxation has been arrived at after charging:		
Auditor's remuneration	**179,761**	190,856
Net foreign exchange loss	**344,106**	13,924
Investment Manager's management fee (note 28 (a))	**12,206,666**	12,303,271
Investment Manager's performance fee	**—**	7,560,103
Directors' fees	**127,686**	137,496

10. DIRECTORS' EMOLUMENTS

The Group has no chief executives and the Directors' fees paid or payable to each of the 11 (2017: 12) Directors were as follows:

	2018 **US$**	2017 US$
Executive Directors:		
Mr. CHU Lap Lik, Victor (Note a)	**—**	—
Mr. WANG Xiaoding	**—**	—
Mr. TSE Yue Kit	**—**	—
Ms. KAN Ka Yee, Elizabeth (Alternate Director) (Note a)	**—**	—
Mr. HONG Xiaoyuan#	**—**	—
	—	—

10. DIRECTORS' EMOLUMENTS (CONTINUED)

	2018 US$	2017 US$
Non-executive Directors (Note b):		
Mr. ZHANG Jian*	—	—
Mr. ZHANG Rizhong**	—	—
Mr. KE Shifeng	30,645	30,698
	30,645	30,698
Independent Non-executive Director and Chairman of the Audit Committee (Note b):		
Mr. TSANG Wah Kwong	35,751	35,814
Independent Non-executive Directors (Note b):		
Mr. LIU Baojie	30,645	30,698
Dr. LI Fang	30,645	30,698
Mr. ZHU Li##	N/A	9,588
	61,290	70,984
Total	127,686	137,496

* The Director was appointed during the year 2018.

** The Director was appointed during the year 2017.

\# The Director resigned during the year 2018.

\## The Director resigned during the year 2017.

Notes:

(a) Mr. CHU Lap Lik, Victor and Ms. KAN Ka Yee, Elizabeth have indirect beneficial interests in the Investment Manager which entered into an Investment Management Agreement with the Company on 15 October 2015 and became effective on 1 January 2016 and was for a fixed term of three years. The details of the existing investment management agreement can be referred to the circular dated 6 November 2015. The amount of management fee paid or accrued to the Investment Manager is disclosed in note 28 to the consolidated financial statements.

(b) The emoluments for Non-executive Director and Independent Non-executive Directors shown above were for their services as Directors of the Company.

(c) There was no arrangement under which the above Directors waived or agreed to waive any remuneration during the both years.

(d) There was no amount as inducement for the above Directors to join the Company and compensation for the loss of office as Directors in connection with the management of the affairs of the Group during the both years.

11. EMPLOYEES' EMOLUMENTS

The four (2017: five) highest paid individuals in the Group were all Directors of the Company and details of their emoluments are included in note 10 above.

12. TAXATION

The tax credit (charge) for the year comprises:

	2018 *US$*	2017 *US$*
The Company and its subsidiaries		
Current tax:		
PRC Enterprise Income Tax	**(15,479,471)**	(13,607,510)
Withholding tax for distributed earnings of PRC subsidiaries	**(364,262)**	(2,678,216)
Underprovision in prior year	**(47,589)**	—
Deferred taxation (note 21)		
Current year	**34,136,814**	(34,645,488)
Total	**18,245,492**	(50,931,214)

No provision for taxation in Hong Kong has been made as the Company and its subsidiaries do not have assessable profits for the years. PRC Enterprise Income Tax in the PRC is calculated at the rates prevailing in the relevant regions.

Under the Law of the PRC on Enterprise Income Tax, withholding tax is imposed on dividends declared in respect of profits earned by PRC subsidiaries from 1 January 2008 onwards. Deferred taxation has been provided for in the consolidated financial statements in respect of temporary differences attributable to retained profits of the PRC subsidiaries.

12. TAXATION (CONTINUED)

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

	2018 **US$**	2017 *US$*
(Loss) profit before taxation	**(105,266,617)**	168,834,048
Tax at the domestic income tax rate of 25% (2017: 25%) (Note)	**26,316,654**	(42,208,512)
Tax effect of expenses not deductible for tax purpose	**(3,878,956)**	(4,243,453)
Tax effect of income not taxable for tax purpose	**4,214,013**	2,534,558
Underprovision in prior year	**(47,589)**	—
Tax effect of tax losses/deductible temporary differences not recognised	**(586,634)**	(99,523)
Effect of different tax rates of the Company and its subsidiaries operating in other regions in the PRC	**(3,230,485)**	2,566,834
Withholding tax for undistributed earnings of PRC subsidiaries	**4,804,954**	(6,366,149)
Withholding tax for distributed earnings of PRC subsidiaries	**(364,262)**	(2,678,216)
Effect of different tax rates applied for deferred tax liability recoginised for the year	**(9,709,495)**	—
Other	**727,292**	(436,753)
Taxation	**18,245,492**	(50,931,214)

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

13. DIVIDENDS

A special interim dividend of US$0.05 per share amounting to US$7,616,651 (2017: Nil) for the year ended 31 December 2018 was paid in cash on 8 November 2018 (2017: Nil).

Subsequent to the end of the reporting period, a final dividend of US$0.07 per share (2017: US$0.06) and a special dividend of US$0.05 per share (2017: Nil), totaling US$0.12 per share (2017: US$0.06), in an aggregate amount of US$18,279,962 (2017: US$9,139,981), in respect of the year ended 31 December 2018 (2017: year ended 31 December 2017) have been proposed by the Directors and are subject to approval by the shareholders at the forthcoming annual general meeting.

A final dividend of US$9,139,981 (2017: US$9,139,981) for the year ended 31 December 2017 (2017: year ended 31 December 2016) was paid in cash on 26 July 2018 (2017: 27 July 2017).

14. BASIC (LOSS) EARNINGS PER SHARE

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

	2018	2017
(Loss) profit for the purpose of basic (loss) earnings per share (US$)	**(87,021,125)**	117,902,834
Number of ordinary shares for the purpose of basic (loss) earnings per share	**152,333,013**	152,333,013
Basic (loss) earnings per share (US$)	**(0.571)**	0.774

No diluted (loss) earnings per share for the both years were presented as there were no potential ordinary shares outstanding at the both year ends.

15. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2018 **US$**	2017 US$
Equity and debt securities at FVTPL:		
– listed equities in PRC (Note a)	**234,086,665**	348,427,399
– listed equity in HK (Note a)	**13,650,121**	15,049,852
– listed equities within lock-up period in PRC (Note a)	**9,909,689**	24,402,375
– listed equities on New Third Board (Note a)	**2,243,852**	8,829,696
– unlisted equities (Notes b and c)	**282,760,149**	325,306,266
– unlisted preferred equity (Note b)	**15,040,000**	32,540,000
– unlisted debt investments (Note b)	**76,519,700**	70,408,007
Total	**634,210,176**	824,963,595
Analysed to reporting purposes as		
Current assets	**55,058,638**	376,210,439
Non-current assets	**579,151,538**	448,753,156
Total	**634,210,176**	824,963,595

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

Notes:

(a) The listed equity securities represent the Group's interest held in China Merchants Bank Co., Ltd., China Reinsurance (Group) Corporation, Iflytek Co., Ltd., Oriental Pearl Media Co., Ltd. and Besttone Holding Co., Ltd. whose fair values are determined based on the quoted market bid prices available on the relevant exchanges. The listed equity securities within lock-up period represent the Group's interest held in Oriental Pearl Media Co., Ltd. and Besttone Holding Co., Ltd. subject to trading moratorium and whose fair values are determined based on the quoted market bid prices available on the Shanghai Stock Exchange and adjusted for lack of marketability due to their non-circulation. For equity securities listed on the New Third Board, namely Wuhan Rixin Technology Co., Ltd. and Xi'an Jinpower Electrical Co., Ltd., their fair values were arrived at by reference to the basis of valuation carried out by an independent valuer not connected with the Group. Determination of fair value is based on the best information available in the circumstances and includes appropriate risk adjustments for lack of marketability. Factors considered in determining the fair value of these investments include multiples of comparable companies listed on stock exchanges.

(b) As at 31 December 2018, fair values of unlisted equities and debt investments amounting to US$94,426,718 (2017: US$82,164,794) were arrived at by reference to their recent transaction prices or discounted cash flows. For other unlisted investments, their fair values were arrived at on the basis of valuations (including net asset value) carried out by an independent valuer not connected with the Group. Determination of fair value is based on the best information available in the circumstances and includes appropriate risk adjustments for lack of marketability. Factors considered in determining the fair value of these investments include multiples of comparable companies listed on stock exchanges and/or latest available information about financial performance or financial position of investees.

(c) As at 31 December 2018, included in unlisted equities investments amounting to US$6,199,732 (2017: US$9,012,580) were investments in associates. The management considers that they are exempted from applying the equity method and are recognised as financial assets at FVTPL.

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

The following are the details of all investments with a value of more than 5% of the Group's total assets as at 31 December 2018 and 31 December 2017 and also details of ten largest investments of the Group.

For the year ended 31 December 2018

Name of investees	Description of the business	Proportion of investee's capital owned	Investment cost *US$ million*	Carrying value *US$ million*	Dividend/ distribution received during the year *US$ million*	% of the Group's net assets as at year end attributable to the investment
China Merchants Bank Co., Ltd.	Banking	0.22%	19.79	202	6.95	35.23%
China Credit Trust Co., Ltd.	Trust management	6.94%	50.49	149	2.19	25.94%
China Media Creative Industry Private Equity (Shanghai) Centre (Limited Partnership)	Media investment	10.13%	0.00	42	1.70	7.22%
Rong Bao Zhai Culture Co., Ltd.	Artwork marketing	N/A	43.36	41	Nil	7.20%
Qinghai Provincial Qinghai Lake Tourism Group Co., Ltd.	Travel	N/A	30.43	35	Nil	6.10%
JIC Leasing Co., Ltd.	Finance leasing	6.46%	38.78	28	Nil	4.82%
Iflytek Co., Ltd.	Intelligent speech technology	0.33%	18.83	24	0.07	4.25%
NBA China, L.P.	Sports marketing	1% preferred equity	0.00	15	0.50	2.62%
China Reinsurance (Group) Corporation	Reinsurance	0.16%	19.31	14	0.44	2.37%
Hwagain Group Co., Ltd.	Manufacture of printing paper & tissue paper	7.10%	19.00	13	Nil	2.19%

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

For the year ended 31 December 2017

Name of investees	Description of the business	Proportion of investee's capital owned	Investment cost US$ million	Carrying value US$ million	Dividend/ distribution received during the year US$ million	% of the Group's net assets as at year end attributable to the investment
China Merchants Bank Co., Ltd.	Banking	0.22%	19.79	245	6.01	34.74%
China Credit Trust Co., Ltd.	Trust management	6.94%	50.49	203	Nil	28.83%
Industrial Bank Co., Ltd.	Banking	0.12%	4.13	62	3.05	8.82%
China Media Creative Industry Private Equity (Shanghai) Centre (Limited Partnership)	Media investment	10.13%	24.76	49	9.57	6.90%
Iflytek Co., Ltd.	Intelligent speech technology	0.33%	18.83	41	0.06	5.82%
Rong Bao Zhai Culture Co., Ltd.	Artwork marketing	N/A	43.36	40	Nil	5.64%
NBA China, L.P.	Sports marketing	1% preferred equity	0.00	32	1.69	4.61%
JIC Leasing Co., Ltd.	Finance leasing	6.46%	38.78	31	0.75	4.35%
Qinghai Provincial Qinghai Lake Tourism Group Co., Ltd.	Travel	N/A	30.43	31	Nil	4.34%
Besttone Holding Co., Ltd.	Commercial service	0.91%	15.10	15	0.01	2.18%

16. OTHER RECEIVABLES AND PREPAYMENTS

	2018 **US$**	2017 US$
Dividend receivable	**5,129,587**	—
Interest receivable	**106,748**	59,561
Other receivables and prepayments	**3,062**	36,574
Total	**5,239,397**	96,135

17. CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise current accounts, savings accounts and short-term bank deposits at fixed prevailing market interest rates.

Cash and cash equivalents held by subsidiaries in the PRC are subject to exchange control restrictions. The carrying amount of these restricted assets in the consolidated financial statements as at 31 December 2018 was approximately of US$20.04 million (2017: US$36.09 million).

18. OTHER PAYABLES

Other payables mainly comprise management fee payable to the Investment Manager as disclosed in note 28 and business tax payable of US$19,607,487 (2017: US$19,607,487) arising from disposal of listed equity securities.

19. TAXATION PAYABLE

The taxation payable represents applicable PRC taxes calculated at the rates prevailing in the relevant regions mainly for the withholding tax on dividends declared by PRC subsidiary.

20. FINANCIAL LIABILITIES DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS

The financial liabilities designated at FVTPL as at 31 December 2018 were related to the sub-participation agreements (the "**Sub-participation Agreements**") entered into between the Company and the participants in respect of the investments by the Group in 北京銀廣通廣告有限公司 (Unibank Media Group Inc.), 武漢日新科技股份有限公司 (Wuhan Rixin Technology Co., Ltd.), 華人文化 (天津) 投資管理有限公司 (China Media (Tianjin) Investment Management Co., Ltd.), 深圳吉陽智能科技有限公司 (Shenzhen Geesun Intelligent Technology Co., Ltd.), 華人文化產業股權投資 (上海) 中心 (有限合夥) (China Media Creative Industry Private Equity (Shanghai) Centre (Limited Partnership)), 江蘇華爾石英材料股份有限公司 (Jiangsu Huaer Quartz Materials Co., Ltd.), 西安金源電氣股份有限公司 (Xi'an Jinpower Electrical Co., Ltd.), 遼寧振隆特產股份有限公司 (Liaoning Zhenlong Native Produce Holding Company Ltd.), 能通科技股份有限公司 (NTong Technology Co., Ltd.), 華勁集團股份有限公司 (Hwagain Group Co., Ltd.), 新疆承天農牧業發展股份有限公司 (Xinjiang Chengtian Agriculture & Animal Husbandry Development Co., Ltd.), 號百控股股份有限公司 (Besttone Holding Co., Ltd.), 廣西新華幼兒教育投資有限公司 (Guangxi Xinhua Preschool Education Investment Corporation Limited), 東方明珠新媒體股份有限公司 (Oriental Pearl Media Co., Ltd.), 中建投租賃股份有限公司 (JIC Leasing Co., Ltd.), 中國再保險 (集團) 股份有限公司 (China Reinsurance (Group) Corporation), 雲南金瀾湄國際旅遊投資開發有限公司 (Yunnan Jinlanmei International Travel Investment Development Co., Ltd.), 科大訊飛股份有限公司 (Iflytek Co., Ltd.), 安徽科訊創業投資基金合夥企業 (有限合夥) (Anhui Iflytek Venture Capital LLP), 榮寶齋文化有限公司 (Rong Bao Zhai Culture Co., Ltd.), 青海省青海湖旅遊集團有限公司 (Qinghai Provincial Qinghai Lake Tourism Group Co., Ltd.), 寧波梅山保稅港區將門創業投資中心 (有限合夥) (Ningbo Meishan Free Trade Port Area Jiangmen Venture Capital LLP), 北京中科寒武紀科技有限公司 (Beijing CAS Cambricon Techonology Co., Ltd.) and Pony AI Inc. (collectively referred to as the "**Project Companies**"). All above mentioned investments by the Group in the Project Companies are classified as financial assets at FVTPL categorised in Level 1 or Level 3. The classification and fair value of the Sub-participation Agreements are associated directly with these underlying investments and their valuation details are set out in note 5. As the Group considers that the Group's exposure to price risk of such financial liabilities is insignificant, no sensitivity analysis on price risk of such financial liabilities is presented. As at 31 December 2018 and 2017, the financial liabilities designated at FVTPL are classified as non-current liabilities and presented in the consolidated statement of financial position.

20. FINANCIAL LIABILITIES DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS (CONTINUED)

Pursuant to the Sub-participation Agreements, the participants will receive a portion of the return (in the form of dividends, interest, or other distributions or proceeds from realisation) from the Group's investment in the Project Companies that is proportional to the amount provided by the participants to the Group as a percentage of the total Group's investment in the Project Companies. If the Group suffers a loss from its investment in the Project Companies, the participants will correspondingly share a loss in the amount they provided to the Group on a pro rata basis. In general, the Sub-participation Agreements would be terminated upon the realisation of the Group's investment in the Project Companies. Details of the Sub-participation Agreements are disclosed in the section of Investment Manager's Discussion and Analysis and under the heading of Sub-participation Scheme.

21. DEFERRED TAXATION

The following is the deferred tax liability recognised by the Group and movements thereon during the current and prior years:

	Unrealised capital gains for investments *US$*	Undistributed earnings of PRC subsidiaries *US$*	Total *US$*
Balance at 1 January 2017	65,048,739	16,907,993	81,956,732
Charged to profit or loss for the year	28,279,339	6,366,149	34,645,488
Exchange differences	4,646,967	1,042,291	5,689,258
Balance at 31 December 2017	**97,975,045**	**24,316,433**	**122,291,478**
Credited to profit or loss for the year	**(29,331,860)**	**(4,804,954)**	**(34,136,814)**
Exchange differences	**(3,468,197)**	**(1,165,652)**	**(4,633,849)**
Balance at 31 December 2018	**65,174,988**	**18,345,827**	**83,520,815**

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

22. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	Notes	2018 US$	2017 US$
Non-current assets			
Investments in subsidiaries		45,030,660	44,583,914
Financial assets at fair value through profit or loss		71,567,869	97,616,196
Amounts due from subsidiaries		54,743,412	56,583,765
		171,341,941	198,783,875
Current assets			
Amounts due from subsidiaries		64,263,132	115,180,078
Other receivables and prepayments		2,382,690	45,447
Cash and cash equivalents		23,948,109	10,701,950
		90,593,931	125,927,475
Current liabilities			
Amounts due to subsidiaries		10,946,469	21,548,739
Other payables		3,565,898	14,584,714
Taxation payable		782,342	4,593,795
		15,294,709	40,727,248
Net current assets		75,299,222	85,200,227
Total assets less current liabilities		246,641,163	283,984,102
Non-current liabilities			
Financial liabilities designated at fair value through profit or loss		1,306,574	1,451,162
Deferred taxation		5,626,913	8,231,746
		6,933,487	9,682,908
Net assets		239,707,676	274,301,194
Capital and reserves			
Share capital	23	139,348,785	139,348,785
Reserves	24	100,358,891	134,952,409
Equity attributable to owners of the Company		239,707,676	274,301,194

Mr. WANG Xiaoding
Director

Mr. TSE Yue Kit
Director

23. SHARE CAPITAL OF THE COMPANY

	Number of shares	*US$*
Issued and fully paid:		
At 1 January and 31 December 2017,		
1 January and 31 December 2018		
– Ordinary shares with no par value	**152,333,013**	**139,348,785**

24. RESERVES OF THE COMPANY

	Translation reserve and retained profits *US$*
Balance at 1 January 2017	95,046,784
Profit and total comprehensive income for the year	49,045,606
2016 final dividend paid	(9,139,981)
Balance at 1 January 2018	**134,952,409**
Loss for the year	**(17,527,102)**
Exchange difference on translation	**(309,784)**
Total comprehensive expense for the year	**(17,836,886)**
2017 final dividend paid	**(9,139,981)**
2018 special interim dividend paid	**(7,616,651)**
Balance at 31 December 2018	**100,358,891**

25. NET ASSET VALUE PER SHARE

The calculation of the net asset value per share at the end of the reporting period is based on the net assets of US$575,055,168 (2017: US$705,626,114) and 152,333,013 ordinary shares (2017: 152,333,013 ordinary shares) with no par value in issue at 31 December 2018.

26. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's consolidated statement of cash flows as cash flows from financing activities.

	Dividend payable *US$*
At 1 January 2017	—
Dividend declared	9,139,981
Financing cash flow	(9,139,981)
At 31 December 2017	—
At 1 January 2018	**—**
Dividend declared	**16,756,632**
Financing cash flow	**(16,756,632)**
At 31 December 2018	**—**

27. COMMITMENTS

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

(a) On 29 April 2010, the Group entered into an agreement with, among others, China Media Creative Industry Private Equity (Shanghai) Centre (Limited Partnership) ("**China Media Investment**"), pursuant to which the Group agreed to make a cash injection of RMB200 million (equivalent to approximately US$30.78 million) in total by installment into the capital of China Media Investment in return for approximately 10% interest in China Media Investment. In addition, the other investors agreed to make cash injections proportionate to their holdings. As at 31 December 2018, the Group has injected RMB158.66 million (equivalent to approximately US$24.76 million) (2017: RMB158.66 million, equivalent to approximately US$24.76 million) into China Media Investment and classified the investment as a financial asset at FVTPL under non-current asset.

(b) On 31 October 2014, the Group entered into a joint venture agreement in relation to Guangxi Xinhua Preschool Education Investment Corporation Limited ("**Xinhua Preschool Education**"), pursuant to which the Group agreed to make a capital contribution of RMB90 million (equivalent to approximately US$13.64 million) in total by installment into the capital of Xinhua Preschool Education in return for a 30% interest in Xinhua Preschool Education. As at 31 December 2018, the Group has injected RMB30 million (equivalent to approximately US$4.90 million) (2017: RMB30 million, equivalent to approximately US$4.90 million) into Xinhua Preschool Education and classified the investment as a financial asset at FVTPL under non-current asset.

(c) On 25 April 2016, the Group entered into a joint venture agreement in relation to Yunnan Jinlanmei International Travel Investment Development Co., Ltd. ("**Jinlanmei Travel**"), pursuant to which the Group agreed to make a capital contribution of RMB20 million (equivalent to approximately US$2.95 million) in total by installment into the capital of Jinlanmei Travel in return for a 20% interest in Jinlanmei Travel. As at 31 December 2018, the Group has injected RMB10 million (equivalent to approximately US$1.49 million) (2017: RMB10 million, equivalent to approximately US$1.49 million) into Jinlanmei Travel and classified the investment as a financial asset at FVTPL under non-current asset.

(d) On 6 December 2016, the Group entered into a partnership agreement in relation to Anhui Iflytek Venture Capital LLP ("**Iflytek Venture Capital**"), pursuant to which the Group agreed to make a capital contribution of RMB90 million (equivalent to approximately US$13.28 million) in total by installment into the capital of Iflytek Venture Capital in return for a 14.95% interest in Iflytek Venture Capital. As at 31 December 2018, the Group has injected RMB63 million (equivalent to approximately US$9.35 million) (2017: RMB49.50 million, equivalent to approximately US$7.20 million) into Iflytek Venture Capital and classified the investment as a financial asset at FVTPL under non-current asset.

28. 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, other than as disclosed elsewhere in the consolidated financial statements, the Group has incurred the following related party transactions:

(a) The Company paid or accrued to the Investment Manager management fees totaling US$12,206,666 (2017: US$12,303,271). The fee is calculated based on a fixed percentage on the value of the Group's adjusted assets on a quarterly basis as stipulated in the Investment Management Agreement (Note).

The amount due to the Investment Manager included in other payables in the consolidated statement of financial position as at 31 December 2018 was US$2,775,726 (2017: US$14,131,105). Amount due to the Investment Manager is unsecured, interest free and is repayable on demand.

(b) Securities brokerage commission fee totaling US$19,989 (2017: US$14,891) was paid to a subsidiary of a substantial shareholder of the Company who has significant influence over the Company.

(c) Pursuant to the Sub-participation Agreements, the financial liabilities of the Group with Mr. ZHANG Rizhong, Mr. WANG Xiaoding and Mr. TSE Yue Kit, who are Directors of both the Company and the Investment Manager, as at 31 December 2018, were US$11,531, US$240,737 and US$21,367, respectively (31 December 2017: US$2,574, US$248,700 and US$24,398, respectively). The financial liability of the Group with Mr. HONG Xiaoyuan, who resigned as a Director of the Company on 14 September 2018, was US$69,735 (31 December 2017: US$89,962). Moreover, the financial liability of the Group with Mr. LAW Hung Kuen, Janson, a Director of the Investment Manager, was US$12,085 (31 December 2017: US$8,180).

(d) Key management compensation and services are disclosed in notes 10, 28(a) and (b) to the consolidated financial statements.

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

29. PARTICULARS OF SUBSIDIARIES

Particulars of all subsidiaries at 31 December 2018 and 2017, which are all wholly-owned by the Company, are as follows:

Name	Classes of shares held	Place of incorporation/ registration and operation	Principal activities	Issued and paid-up capital	Name of Directors
CMCDI Zhaoyuan Limited	Ordinary	BVI/PRC	Inactive	US$1 (Directly owned limited liability company)	Mr. WANG Xiaoding Mr. NG Chi Keung
China Merchants Industry Development (Shenzhen) Limited	Registered capital	PRC/PRC	Investment holding	US$10,000,000 (Directly owned & wholly-owned foreign enterprise)	Mr. CHU Lap Lik, Victor Mr. WANG Xiaoding Mr. TSE Yue Kit Ms. KAN Ka Yee, Elizabeth Mr. CHOI King Yin, Christopher
Everich Dynamic Investments Limited	Ordinary	BVI/PRC	Inactive	US$1 (Directly owned limited liability company)	Mr. WANG Xiaoding Ms. HO Man Yi
Goshing Investment Limited	Ordinary	BVI/PRC	Investment holding	US$1 (Directly owned limited liability company)	Mr. WANG Xiaoding Mr. NG Chi Keung
Leadman Investment Limited	Ordinary	HK/HK	Inactive	HK$1 (Directly owned limited liability company)	Mr. WANG Xiaoding Mr. NG Chi Keung
Main Star Investment Limited	Ordinary	HK/HK	Investment holding	HK$40,000,000 (Directly owned limited liability company)	Mr. WANG Xiaoding Mr. NG Chi Keung
Ryan Pacific Limited	Ordinary	BVI/PRC	Inactive	US$1 (Directly owned limited liability company)	Mr. WANG Xiaoding Mr. NG Chi Keung
Star Group Limited	Ordinary	HK/HK	Investment holding	HK$2 (Directly owned limited liability company)	Mr. WANG Xiaoding Mr. NG Chi Keung

29. PARTICULARS OF SUBSIDIARIES (CONTINUED)

Name	Classes of shares held	Place of incorporation/ registration and operation	Principal activities	Issued and paid-up capital	Name of Directors
Shenzhen Tian Zheng Investment Co., Ltd.	Registered capital	PRC/PRC	Investment holding	RMB700,000,000 (Indirectly owned limited liability company)	Mr. WEI Pengchong* Mr. SHEN Qi#
Wisetech Limited	Ordinary	BVI/PRC	Investment holding	US$1 (Directly owned limited liability company)	Mr. WANG Xiaoding Ms. HO Man Yi
Xinjiang Tian Hong Equity Investment Co., Ltd.	Registered capital	PRC/PRC	Investment holding	RMB30,000,000 (Indirectly owned limited liability company)	Mr. WEI Pengchong* Mr. SHEN Qi#

None of the subsidiaries had any debt securities subsisting at 31 December 2018 and 2017 or at any time during the year.

* The Director was appointed during the year 2018.
# The Director resigned during the year 2018.

30. CAPITAL RISK MANAGEMENT

The Group manages the capital to ensure that entities in the Group 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 is equity attributable to owners of the Company, comprising share capital, reserves and retained profits as disclosed in the consolidated 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 new shares issues as well as the issue of new debt. The Group's overall strategy remains unchanged throughout the year.

FINANCIAL SUMMARY

CONSOLIDATED RESULTS

	For the year ended 31 December				
	2014	2015	2016	2017	**2018**
	US$	*US$*	*US$*	*US$*	***US$***
Net gain (loss) on financial assets at fair value through profit or loss	194,828,928	31,492,599	(35,548,107)	174,206,045	**(111,123,083)**
Investment income	17,053,071	40,939,324	25,999,558	15,207,807	**18,884,552**
Profit (loss) from operations	189,388,331	58,251,266	(21,739,378)	168,834,048	**(105,266,617)**
Share of results of associates	(1,461,117)	—	—	—	**—**
Gain on disposal of a subsidiary	9,723,213	—	—	—	**—**
Gain on disposal of an associate	1,432,126	—	—	—	**—**
Taxation	(50,454,183)	(12,012,654)	6,141,714	(50,931,214)	**18,245,492**
Profit (loss) attributable to owners of the Company	148,628,370	46,238,612	(15,597,664)	117,902,834	**(87,021,125)**
Basic earnings (loss) per share	0.976	0.304	(0.102)	0.774	**(0.571)**
Dividend per share					
– Final	0.06	0.06	0.06	0.06	**0.07**
– Special	0.03	0.09	—	—	**0.10**
– Total	0.09	0.15	0.06	0.06	**0.17**

CONSOLIDATED ASSETS AND LIABILITIES

	As at 31 December				
	2014	2015	2016	2017	**2018**
	US$	*US$*	*US$*	*US$*	***US$***
Total assets	799,550,700	780,266,541	687,821,249	872,826,995	**687,899,613**
Total liabilities	(159,422,517)	(144,939,043)	(126,505,804)	(167,200,881)	**(112,844,445)**
Net assets	640,128,183	635,327,498	561,315,445	705,626,114	**575,055,168**
Net asset value per share	4.202	4.171	3.685	4.632	**3.775**