China Merchants China Direct Investments Limited

(Incorporated in Hong Kong with limited liability)

(Stock Code: 133)

ANNUAL REPORT 2011

CONTENTS

BOARD OF DIRECTORS

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

Non-executive Director:
Mr. KE Shifeng

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

* *members of Investment Committee*

AUDIT COMMITTEE

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

INVESTMENT MANAGER

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

PRINCIPAL BANKERS

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

COMPANY SECRETARY

Mr. LEUNG Chong Shun

AUDITOR

Deloitte Touche Tohmatsu

LEGAL ADVISERS

Linklaters
Victor Chu & Co
Woo Kwan Lee & Lo

SHARE REGISTRAR

Computershare Hong Kong Investor Services Limited
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HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

1803 China Merchants Tower,
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Stock Code: 0133.HK
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Mr. LI Yinquan

Chairman

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 2011, amounted to US$476.91 million, with a net asset value per share of US$3.148, representing a decrease of 3.7% compared to a net asset value per share of US$3.268 at the end of 2010. The Group's audited consolidated loss for 2011 was US$19.83 million, compared to an audited consolidated loss of US$112.06 million for the same period last year – a significant reduction in loss of US$92.23 million.

The Board recommended the payment of a final dividend of US$0.04 per share, which is the same as prior year, and a special dividend of US$0.08 per share, which is an increase of US$0.01 or 14.3% compared to prior year. Total dividends payable for the year 2011 amounted to US$0.12 per share, representing an increase of 9.1% compared to US$0.11 per share in 2010.

In 2011, given a complex and volatile global economic environment and new challenges in China's domestic economy, the Central Government, while aiming to transform the mode of development, placed much emphasis on managing economic growth through the introduction of an active fiscal policy and a steady monetary policy. Although China's economic growth slowed in 2011, it maintained a healthy momentum and strong fundamentals – stable and relatively rapid growth in industrial production, improving corporate profits, stable domestic consumption, increasing imports and exports, and ongoing reductions in the trade surplus. According to a preliminary report from the National Bureau of Statistics of China, China's gross domestic product (GDP) for 2011 recorded growth of 9.2% over 2010, just 1.1 percentage points slower than in the previous year. In addition, the consumer price index (CPI) saw a year-over-year increase of 5.4%, seeing that inflation was contained during the year.

Also in 2011, the A share large-cap stock market tumbled successively in response to the global economic downturn and growing inflationary pressure in China. The SSE Composite Index, which tracks large-cap stocks, ended 2011 down 21.7%. Prices of the A shares of the two listed banks held by the Group fell along with the market, but their decline was moderate and did not have a significant impact on the 2011 operating results of the Group.

At the end of 2011, the Group's total holdings in direct investment projects amounted to US$458.01 million (US$537.73 million at the end of 2010) accounting for 82.35% of the Group's total asset value, and representing a decrease of US$79.72 million that was largely due to the disposal of certain banking assets held by the Group. Meanwhile, investment in bonds was US$0.73 million, accounting for 0.13% of total asset value, and cash on hand was US$95.82 million, accounting for 17.23% of total asset value.

The Investment Manager has actively sought new investment opportunities, with intensive due diligence and the screening of many prospects, the Group invested in six new projects – namely, Xi'an Jinpower Electrical Co., Ltd., Renren Inc., Guangxi Hwagain Group Co., Ltd., Liaoning Zhenlong Native Produce Holding Company Ltd., NTong Technology Co., Ltd. and Teralane Semiconductor (Shenzhen) Co., Ltd. – for aggregate investments and commitments of US$54.38 million in 2011. These projects covered the culture and media, manufacturing and information technology industries, and helped to further optimise the Group's investment portfolio. Moreover, in order to strengthen its capital base, China Merchants Bank Co., Ltd. ("**CMB**") announced a rights issue plan during the year, and the Group will subscribe to the allotted new A shares of CMB, with a conditional waiver granted by the Hong Kong Stock Exchange and with approval by the shareholders of the Company. Currently, the rights issue plan has yet to be implemented.

In addition, the Group continued to dispose of A shares of Industrial Bank Co., Ltd. ("**IBC**") according to market conditions, with a goal of increasing working capital, realising returns for shareholders, and meeting the requirements of the conditional waiver granted by the Hong Kong Stock Exchange, which governed the Group's subscription to the new A shares of IBC. In addition, to realise a return on our investments, the Group disposed of its entire interest in Morgan Stanley Huaxin Fund Management Co., Ltd. for US$5.03 million, resulting in a pre-tax internal rate of return of 20%. Moreover, through the vigorous efforts of the Investment Manager, the Group successfully disposed of one non-performing investment project, Shenzhen Mankam Square, and recovered US$2.32 million in cash.

Under the Sub-participation Scheme, the aggregate amount provided by the participants in each of the Group's new investment projects was originally restricted to 2% of the Group's investment in each project (the "**Ceiling of Relative Proportion**"). In order to further strengthen the investment management process, the Company agreed to make certain revisions to the Ceiling of Relative Proportion during the year, primarily for projects of relatively small scale. For details, please refer to the section of Investment Manager's Discussion and Analysis and under the heading of Sub-participation Scheme.

Looking ahead to 2012, we believe that challenges and opportunities continue to coexist. On the one hand, the Chinese economy faces many difficulties – including drag from the global economy, Renminbi appreciation, severe overcapacity, an imbalanced economic structure, and a relatively weak social safety net – that bring uncertainties to China's future economic development. On the other hand, China's economy will continue to develop steadily over the medium-to-long-term. In addition, we believe the Central Government will continue to pursue business-friendly policies for certain industries that intended to diversify sources of growth within the domestic economy and to upgrade China's industrial base, which will in turn create more opportunities for the Group to make direct investments. As always, the Investment Manager will face the challenges ahead and strive to identify new investment opportunities that will increase shareholders' return.

Lastly, on behalf of the Board, I would like to offer my heartfelt gratitude to the members of the Audit 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. In the meantime, I will continue to give my best effort to lead the Group in the continual pursuit of creating value for shareholders in the coming year.

Mr. LI Yinquan
Chairman

Hong Kong, 29 March 2012


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

OVERALL PERFORMANCE

China Merchants China Direct Investments Limited and its subsidiaries (the "**Fund**") recorded a loss attributable to equity shareholders of US$19.83 million for the year ended 31 December 2011, compared to a loss attributable to equity shareholders of US$112.06 million for the same period last year – a significant decrease in loss of US$92.23 million. The improvement in loss was largely attributable to a lesser decrease in the fair value of financial assets designated at fair value through profit or loss (the "**Financial Assets**"). As of 31 December 2011, the net assets of the Fund were US$476.91 million (31 December 2010: US$487.41 million), with a net asset value per share of US$3.148 (31 December 2010: US$3.268).

For 2011, the loss on change in fair value of the Financial Assets was US$19.75 million (2010: loss on change in fair value of US$140.04 million), and was chiefly attributable to the fact that China Credit Trust Co., Ltd., the Fund's major investment, recorded a loss on change in fair value of US$31.19 million.

Total investment income for the year increased by 32% compared to the same period last year, to US$17.33 million (2010: US$13.09 million), due primarily to an increase in dividend income from investment projects and an increase in interest income.

MATERIAL ACQUISITIONS AND DISPOSALS OF INVESTMENTS

In 2011, the Fund searched for investment opportunities and either invested or committed to invest in several new projects in the culture and media, manufacturing, and information technology industries.

On 28 January 2011, the Fund invested US$3.03 million in Xi'an Jinpower Electrical Co., Ltd. ("**Jinpower Electrical**") for a 5.26% equity interest in the enlarged capital. Jinpower Electrical is principally engaged in the research, development and production of intelligent on-line monitoring systems for transmission lines and substation equipment for the power grid.

On 20 April 2011, the Fund made an investment of US$11 million in Renren Inc. ("**Renren**") through a joint venture, and acquired a beneficial interest in 785,714 American depositary shares of Renren. The American depositary shares of Renren have been listed on the New York Stock Exchange since 4 May 2011. Renren is a leading real name social networking internet platform in China.

On 14 June and 31 August 2011, the Fund entered into a capital increase agreement and a supplemental capital increase agreement in relation to Guangxi Hwagain Group Co., Ltd. ("**Hwagain**") respectively. Pursuant to these agreements, in January 2012, the Fund made an investment of US$19.04 million in Hwagain, and acquired a 7.10% equity interest in the enlarged capital. Hwagain is principally engaged in the research, development and production of high quality printing paper and tissue paper.

On 5 August 2011, the Fund completed an investment of US$2.97 million in Liaoning Zhenlong Native Produce Holding Company Ltd. ("**Liaoning Zhenlong**"), and acquired a 2% equity interest in the enlarged capital. Liaoning Zhenlong is principally engaged in the acquisition, processing, and export and import of agricultural byproducts and domestic produce.

On 29 August 2011, the Fund made an investment of US$10.41 million in NTong Technology Co., Ltd. ("**NTong**") for a 12.34% equity interest in the enlarged capital. NTong is principally engaged in software development, operation and maintenance of information technology systems and systems integration.

On 6 December 2011, the Fund invested in Teralane Semiconductor (Shenzhen) Co., Ltd. ("**Teralane Semiconductor**") by subscribing to a convertible bond offering in the principal amount of US$0.79 million. The bonds are convertible into an equity interest of approximately 1.80% in the enlarged capital. Teralane Semiconductor is principally engaged in the design of integrated circuit (IC) panels, as well as the research and development, manufacture and sale of related products, and the provision of system integration and technical services.

In addition, the Fund disposed of certain investments in 2011.

In March 2011, the Fund sold its 10% equity interest in Morgan Stanley Huaxin Fund Management Co., Ltd. ("**Morgan Stanley Fund**") to a connected party of the Fund in exchange for consideration of RMB33 million (equivalent to US$5.03 million) – an amount that was arrived at through an arm's length negotiation between the Fund and the connected party, and that was based on a valuation assessment by a professional and independent third party. The pre-tax internal rate of return of the Fund's investment in Morgan Stanley Fund amounts to 20%.

In August 2011, the wholly-owned subsidiaries of Hansen Enterprises Limited, in which the Fund has a 35% interest, sold the third floor of Shenzhen Mankam Square (the "**Mankam Project**") to an independent third party for consideration of RMB49 million. In November 2011, the Fund received net amounts of US$2.32 million from the Mankam Project, upon completion of the sale. The Fund invested US$4.30 million in the Mankam Project in 1994 and made a full provision for the project in 2005, recording a loss of 46% when compared with the original investment cost.

Lastly, the Fund was granted authorisation by its shareholders to dispose of its entire holding of A shares of both CMB and IBC. During 2011, the Fund did not dispose of any A shares in CMB, but did dispose of 38.40 million A shares in IBC for net proceeds of US$102.09 million.

LIQUIDITY, FINANCIAL RESOURCES, GEARING AND CAPITAL COMMITMENTS

The Fund's cash on hand increased by 51%, from US$63.28 million at the end of last year to US$95.82 million (representing 17.23% of the Fund's total assets) as of 31 December 2011, due primarily to partial disposal of A shares in IBC during the year.

As of 31 December 2011, the Fund had no outstanding bank loans (31 December 2010: Nil).

As of 31 December 2011, the Fund had capital commitments of US$50.58 million (31 December 2010: US$24.16 million) for investments that were approved, but not yet provided for in the financial statements – specifically, for future payments related to the investment in China Media Creative Industry Private Equity (Shanghai) Centre (Limited Partnership) ("**China Media Investment**"), the investment in Hwagain, and the subscription for the convertible bonds of NTong, contingent on the request of NTong.

EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES AND RELATED HEDGES

Most of the Fund's investments are located in China where the official currency is the Renminbi ("**RMB**"). The conversion rate of RMB against U.S. dollar recorded an increase of approximately 5% in 2011, which had a positive impact on the Fund since it holds a considerable amount of assets denominated in RMB.

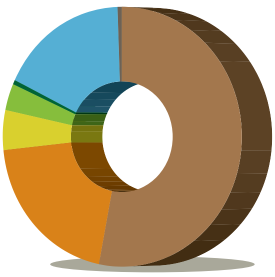
EMPLOYEES

Other than a qualified accountant whose remuneration packages are 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

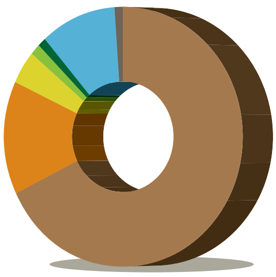
As of 31 December 2011, the Fund's total investments amounted to US$458.74 million, which comprised US$458.01 million in direct investments and US$0.73 million in bonds. The sector distribution of direct investments was US$298.01 million in financial services (representing 53.59% of the Fund's total assets), US$112.35 million in culture and media (20.20%), US$28.77 million in manufacturing (5.17%), and US$18.88 million in other ventures (including energy and resources, information technology and real estate) (3.39%). In addition, cash on hand was US$95.82 million, representing 17.23% of the Fund's total assets as of 31 December 2011.

TOTAL ASSETS DISTRIBUTION



AS OF 31 DECEMBER 2011

- Financial Services Investment (2011 : 53.59% ; 2010 : 69.93%)
- Culture and Media Investment (2011 : 20.20% ; 2010 : 14.52%)
- Manufacturing Investment (2011 : 5.17% ; 2010 : 4.50%)
- Other Ventures (2011 : 3.39% ; 2010 : 0.37%)
- Bonds (2011 : 0.13% ; 2010 : 0.12%)
- Cash (2011 : 17.23% ; 2010 : 10.51%)
- Others (2011 : 0.29% ; 2010 : 0.05%)



AS OF 31 DECEMBER 2010


Ms. ZHOU Linda Lei
Managing Director of the Investment Manager

REVIEW OF DIRECT INVESTMENTS

The following table shows the direct investment projects held by the Fund as at 31 December 2011:

Name of projects	Location of headquarters	Business nature	Listed (Stock Exchange)/ unlisted	Carrying value (US$ million)	Percentage of total assets %
Financial Services:					
1. China Merchants Bank Co., Ltd.	Shenzhen, Guangdong	Banking	Shanghai Stock Exchange	124	22.31
2. Industrial Bank Co., Ltd.	Fuzhou, Fujian	Banking	Shanghai Stock Exchange	88	15.93
3. China Credit Trust Co., Ltd.	Beijing	Trust management	Unlisted	85	15.21
4. China Media (Tianjin) Investment Management Co., Ltd.	Tianjin	Fund management	Unlisted	1	0.14
		Sub-total:		**298**	**53.59**
Culture and Media:					
5. NBA China, L.P.	Beijing	Sports marketing	Unlisted	24	4.46
6. Unibank Media Group Inc.	Beijing	Indoor media	Unlisted	10	1.75
7. Guangzhou Digital Media Group Ltd.	Guangzhou, Guangdong	Cable television & broadband access	Unlisted	48	8.58
8. China Media Creative Industry Private Equity (Shanghai) Centre (Limited Partnership)	Shanghai	Media investment	Unlisted	6	1.15
9. China Business Network	Shanghai	Provision of financial information service	Unlisted	21	3.76
10. Renren Inc.	Beijing	Social networking services	New York Stock Exchange	3	0.50
		Sub-total:		**112**	**20.20**
Manufacturing:					
11. Shandong Jinbao Electronics Co., Ltd.	Zhaoyuan, Shandong	Copper foil & laminates	Unlisted	23	4.11
12. Shenzhen Geesun Automation Technology Co., Ltd.	Shenzhen, Guangdong	Production equipment for lithium ion batteries	Unlisted	1	0.16
13. Jiangsu Huaer Optoelectronic Material Co., Ltd.	Yangzhou, Jiangsu	High purity silica crucibles	Unlisted	2	0.35
14. Liaoning Zhenlong Native Produce Holding Company Ltd.	Fuxin, Liaoning	Food processing	Unlisted	3	0.55
		Sub-total:		**29**	**5.17**

Name of projects	Location of headquarters	Business nature	Listed (Stock Exchange)/ unlisted	Carrying value (US$ million)	Percentage of total assets %
Others:					
(i) Energy & Resources:					
15. Wuhan Rixin Technology Co., Ltd.	Wuhan, Hubei	Solar energy	Unlisted	2	0.41
(ii) Information Technology:					
16. Xi'an Jinpower Electrical Co., Ltd.	Xi'an, Shaanxi	Electrical system related	Unlisted	5	0.94
17. NTong Technology Co., Ltd.	Beijing	Software development	Unlisted	11	1.90
18. Teralane Semiconductor (Shenzhen) Co., Ltd.	Shenzhen, Guangdong	IC design	Unlisted	1	0.14
(iii) Real Estate:					
19. China Merchants Plaza (Shanghai) Property Co., Ltd.	Shanghai	Office & commercial	Unlisted	–	–
		Sub-total:		**19**	**3.39**
		Total:		**458**	**82.35**

China Merchants Bank Co., Ltd. ("CMB") is China's first joint-stock commercial bank, with shares listed on the Shanghai Stock Exchange since 2002 and on the Hong Kong Stock Exchange since 2006. In addition to its network of over 880 branches and offices across China, CMB also owns 100% of Wing Lung Bank in Hong Kong and has established a branch and a representative office in New York, the United States, and a representative office in London, the United Kingdom. In addition, a Taipei representative office was officially established on 15 March 2011. As of 31 December 2011, the Fund held 65.83 million A shares of CMB, representing an equity interest of 0.31%, and with a corresponding investment cost of RMB110.07 million (equivalent to US$12.53 million). In June 2011, the Fund received a cash dividend of RMB19.09 million from CMB for 2010.

With respect to the rights issue plan announced by CMB in 2011, the Fund was granted a conditional waiver by the Hong Kong Stock Exchange in relation to Rule 21.04(3)(b) of the Listing Rules and obtained approval from its shareholders on 5 December 2011 to subscribe to the allotted new A shares of CMB. Currently, the rights issue plan has yet to be implemented by CMB.

During 2011, the Fund did not dispose of any A shares of CMB.

Industrial Bank Co., Ltd. ("IBC") is a joint-stock commercial bank incorporated in the PRC, with shares listed on the Shanghai Stock Exchange since 2007. IBC has a network of over 640 branches and offices across China. As of 31 December 2011, the Fund held 44.62 million A shares of IBC, representing an equity interest of 0.41%, and with a corresponding investment cost of RMB110.18 million (equivalent to US$11.55 million). In May 2011, the Fund received a cash dividend of RMB17.50 million from IBC for 2010. In addition, pursuant to a proposal by IBC to distribute bonus shares converted from its capital reserves, on the basis of 8 bonus A shares for every 10 A shares owned, the Fund received 33.34 million A shares from IBC in May 2011.

On 28 June 2011, the number of IBC A shares held by the Fund was reduced to 44.62 million shares, and as a result the carrying value of the Fund's interest in IBC was then reduced to 19.14% of the Fund's net asset value. As such, the condition imposed by the Hong Kong Stock Exchange upon granting a waiver with respect to the Fund's subscription to IBC A rights shares was met by the Fund.

During 2011, the Fund disposed of a total of 38.40 million A shares of IBC, for net proceeds of RMB661 million (equivalent to US$102.09 million).

On 6 March 2012, IBC announced a private placement proposal, pursuant to which IBC plans to issue not more than 2.073 billion new shares to several designated strategic investors, raising not more than RMB26.38 billion in order to supplement its core capital. The proposal is subject to the approvals by the relevant regulatory authorities and the shareholders of IBC.

China Credit Trust Co., Ltd. ("CCT") was established in 1995. The principal activities of CCT are trust management, fund management, investments and loan financing. As of 31 December 2011, the Fund held a 6.94% equity interest in CCT, with a total investment cost of US$50.49 million. In June and July of 2011, the Fund received a total cash dividend of US$6.41 million from CCT for 2010.

For 2011, CCT recorded an unaudited net profit (excluding its share of results of its associates under the equity method) of RMB1.3 billion, representing a significant increase over the same period last year. The reasons for the increase include: a significant increase in net interest income compared with the same period last year, mainly due to an increase in lending business with its proprietary funds upon the completion of its capital offering in 2010; and also a significant increase in net income from handling fees and commissions compared to the same period last year, driven by tighter credit and a decrease in lending by banks to real estate developers since the end of 2010, which resulted in robust demand for financing by way of real estate trusts.

During the second half of 2011, the China Banking Regulatory Commission further strengthened regulation of real estate trusts, and began to require trust companies to obtain approval for every new real estate trust. Meanwhile, investors grew more concerned about the repayment risk of real estate trusts in a sluggish market. Under the influence of these two factors, the number of new real estate trusts launched during the second half of the year was significantly lower than in the first half of the year. The duration of the trust products generally ranges from one to three years, and any increases or decreases in revenue from new trust products will have a lagging effect on financial results, as part of the revenue derived from the trust business can be accounted for only when the products are settled. CCT pointed out that many trust products will be due for repayment in 2012, and it will be a critical period for risk of repayment.

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 (please refer to the section of China Media Investment on page 15), China Media Management is responsible for defining and executing the investment strategy for China Media Investment, as well as for managing their operations.

China Media Management has started to evaluate the feasibility of four investment projects and is expected to make decision to invest in 2012.

NBA China, L.P. ("NBA China") is a limited liability partnership incorporated in the Cayman Islands in 2007. The Fund invested US$23 million in 2008 for a 1% preferred equity stake in NBA China. NBA China has exclusive rights to operate the NBA's businesses in the Greater China Region, including television broadcasting rights, advertising, sponsorship, events, digital media, and merchandising, among other new businesses. The Fund received a cash distribution from NBA China of US$54,000 and US$144,000 in February 2011 and February 2012 respectively.

As the NBA League and the National Basketball Players Association (NBPA) were not able to reach an agreement on collective bargaining terms, an NBA lockout commenced on 1 July 2011. In early December 2011, the NBA League finally entered into a new 10-year bargaining agreement with the NBPA. The official start of the new season was deferred to late December 2011, with the duration of the season shortened to 66 regular games per team, 20% fewer than the 82 games per team in a normal season.

NBA China was able to continue with a number of sponsorship activities with retired legendary basketball players, and also signed new contracts with some existing sponsors during the suspension of the NBA League, in an effort to minimising the negative impact of the suspension on its financial performance.

Unibank Media Group Inc. ("Unibank Media") was established in Beijing in 2011 as an operating entity after a merger and reorganisation and is principally engaged in commercial advertising through its video display network, located in banking service outlets in 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.

In the second half of 2011, the Fund and other shareholders of Inbank Media jointly established Unibank Media with the shareholders of Yintong Media Co., Ltd. ("**Yintong Media**") and certain assets of Inbank Media and Yintong Media were acquired by Unibank Media. The reorganisation was completed in the fourth quarter of 2011 and Inbank Media was replaced by Unibank Media as an investee. The Fund then held a 9.80% interest in Unibank Media. (Note: The Fund and other shareholders of Unibank Media reserved an aggregate of 15% interest in Unibank Media as an incentive payable to the management of Unibank Media after the completion of the initial public offering (IPO) or completion of the sale of the whole business of Unibank Media, 1.47% of which would be from the Fund in proportion to its interest in Unibank Media. After the implementation of the incentive, the Fund's stake in Unibank Media would be 8.33%.)

After the completion of the reorganisation in the fourth quarter of 2011, Unibank Media (at a valuation of US$150 million after financing) recruited new investors, and underwent domestic and overseas financing in an amount of RMB130 million and US$13 million respectively. The Fund holds a 7.62% interest in Unibank Media immediately after the financing. (Note: The Fund will, in proportion to its interest in Unibank Media, be liable for a 1.14% interest in Unibank Media as an incentive payable to the management of Unibank Media after the completion of the IPO or completion of the sale of the whole business of Unibank Media, and the Fund's stake in Unibank Media will be 6.48% after the implementation of the incentive.)

As at the end of 2011, Unibank Media signed national network cooperation agreements with the head offices of sizeable banks including Bank of China, China Construction Bank, CMB and the Agricultural Bank, and also signed cooperation agreements with various joint-stock commercial banks including Pudong Development Bank, Huaxia Bank and CITIC Bank at branches in major cities such as Beijing, Shanghai, Guangzhou and Shenzhen. Unibank Media has installed over 14,000 advertising devices in banking service outlets, and plans to set up at least 50,000 advertising devices in 2012 with an ultimate goal of building a national advertising network covering the banking service outlets in central business districts within major cities.

Guangzhou Digital Media Group Ltd. ("Guangzhou Digital") was established in Guangzhou, Guangdong in 1993 to engage in the operation of cable television transmission and internet broadband access. The Fund invested RMB210 million (equivalent to US$30.74 million) in August 2009 for a 21% equity interest in Guangzhou Digital. In June and November 2011, the Fund received a total cash dividend of RMB20.16 million from Guangzhou Digital for 2010.

As the groundwork for the integration of Guangzhou Digital and Guangdong Broadcasting and Television Network Co., Ltd. ("**Guangdong Network**"), such as audit, valuation, etc., was not completed on time, Guangzhou Digital's conversion into a joint-stock limited company, which was originally scheduled for the fourth quarter of 2011, has yet to be completed. It is anticipated that the integration of Guangzhou Digital and Guangdong Network will continue in 2012. The Fund will actively negotiate with Guangzhou Digital and its controlling shareholder, Guangzhou TV Station, and Guangdong Network, to safeguard the best interests of the Fund during the integration of Guangzhou Digital and Guangdong Network.

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 ("**NDRC**"). Total capital of RMB5 billion is expected to be raised, of which the initial capitalisation amounts to RMB2 billion. Major promoters of and contributors to China Media Investment include Shanghai Dongfang Huijin Culture Industry Investment Co., Ltd., China Development Bank Capital Corporation Ltd., Shanghai Dazhong Group Capital Private Equity Investment Co., Ltd. and Wenhui Xinmin United Press Group Co., Ltd. – all of whom are dominant players in the financial investment and/or culture and media sectors. China Media Investment has an investment horizon of 10 years. The scope of investments of China Media Investment includes major projects in broadcasting and media, publishing, animation and creative media, as well as in direct investments in the culture and media sector in both China and overseas. China Media Management, in which the Fund has an interest, is the general partner and investment manager of China Media Investment.

In April 2010, the Fund agreed to make a capital investment of RMB200 million by installment in China Media Investment. The first installment of RMB40 million (equivalent to US$5.86 million) was made by the Fund in June 2010. Additional capital investments of RMB6.26 million (equivalent to US$0.95 million) and RMB6.77 million (equivalent to US$1.08 million) were made in March 2011 and February 2012 respectively. And these three installments combined amount to a cumulative investment of RMB53.03 million (equivalent to US$7.89 million) by the Fund in China Media Investment, and comprise 26.52% of the total investment committed by the Fund.

Currently, the investment projects of China Media Investment include the Star China project (with News Corporation of the U.S. as its partner) and Renren Inc., a social networking internet site in China, for a combined investment of RMB450 million.

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

In 2011, CBN saw stable development. The iPad version of CBN Weekly ("**Weekly**") was awarded Best Newspaper and Magazine for App Store 2011 Review by the Apple App Store, and also ranked 15th for the annual best-selling application software – which was even more remarkable given that the Top 14 all fell under the Games category. The iPad version of the Weekly recorded over 10,000 subscriptions and its download volume reached 500,000. Furthermore, two programs produced by CBN Radio received the 2009/2010 Outstanding Annual Program Awards for Chinese Radio, Film and Television.

Renren Inc. ("Renren") is a company incorporated under the laws of Cayman Islands, and its American depositary shares ("**ADS**", each representing three Class A ordinary shares) have been listed on the New York Stock Exchange since 4 May 2011. Renren is a leading real name social networking internet platform in China. In April 2011, the Fund made an investment of US$11 million in Renren through a joint venture, and is beneficially interested in 785,714 ADS of Renren. The ADS of Renren held by the Fund had a lockup period of 180 days, which expired at the end of October 2011.

The Fund actively communicates with the management of Renren to understand its business status and development strategy. Renren's advertising revenue in 2012 is expected to exceed market growth, while its online game business is estimated to be in line with the market trend. In addition, Renren will invest in the development of new projects, such as group buying websites.

Shandong Jinbao Electronics Co., Ltd. ("Jinbao") was established in Zhaoyuan, Shandong in 1993 to engage in the production and sale of copper foil and laminate. The Fund's cumulative investment in Jinbao is US$7.85 million, representing an equity interest of 25.91% in Jinbao as of 31 December 2011.

The operating income of Jinbao in 2011 remained flat compared with the same period last year. Hampered by rising costs and price competition, Jinbao recorded a significant decrease in profitability.

In 2011, China's electronics industry experienced declining exports throughout most of the year, as well as weaker domestic demand. At the same time, electronics companies have faced a workforce shortage combined with rising costs of labour as well as other production factors. For these reasons, the electronics industry saw no more than single-digit growth. Given the challenging business environment, Jinbao achieved financial results that were approximately flat to 2010 by solidifying relationships with existing customers and seeking full recovery of trade receivables and without any bad debts reported.

Shenzhen Geesun Automation Technology Co., Ltd. ("Geesun Technology") was established in Shenzhen, Guangdong in 2006 and is a leading manufacturer of equipment and automated production lines for lithium ion batteries and super capacitors. The Fund invested RMB20 million (equivalent to US$2.93 million) in May 2010 for a 15.38% equity interest in Geesun Technology. After injecting new capital to Geesun Technology in 2011, the Fund's stake in the company was diluted to 12.62% as of 31 December 2011.

During 2011, Geesun Technology's operating income declined over the same period last year and resulted in an operating loss, which was mainly due to a rapid contraction in demand triggered by the sluggish macroeconomic conditions. In the second half of 2011, Geesun Technology began to restructure its business – streamlining its management structure, reducing headcount, consolidating its supply chain, increasing efforts to collect trade receivables, and improving inventory management – in order to return to profitability in 2012.

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

Affected by weak downstream demand from the solar photovoltaic industry, twelve new production lines that commenced production in the second half of 2011 were not fully utilised. At the same time, depreciation costs and financing costs had increased. Notwithstanding, Huaer Optoelectronic's profit recorded double-digit growth over the previous year, yet lower-than-expected.

Moreover, in November 2011, Huaer Optoelectronic was acknowledged as a state-accredited high technology enterprise and will benefit from a reduced enterprise income tax rate of 15% from 2011 to 2013 under the preferential policy.

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

Sales and net profit at Liaoning Zhenlong in 2011 increased over the previous year, which was mainly attributable to the addition of new production lines and to optimisation of the production process.

Liaoning Zhenlong was converted to a joint-stock limited company in September 2011 and renamed at that time. Liaoning Zhenlong has made an application to the China Securities Regulatory Commission ("**CSRC**") in the first quarter of 2012, in order to list its A shares on the Small and Medium-sized Enterprises Board.

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

The BIPV demonstration project in the industrial park of Wuhan Rixin was integrated with the power grid in 2010. At the end of December 2011, the Development and Reform Commission of Hubei Province duly approved a grant of subsidies to Wuhan Rixin based on the amount of electricity sold by the industrial park of Wuhan Rixin and the government-guided price set by the NDRC concerning photovoltaic power generation. This was an important development, and evidence of support for the business model of Wuhan Rixin's BIPV project in relation to the construction and operation of on-grid power generation.

In addition, according to Wuhan Rixin, a total installed capacity of 150 MW for solar photovoltaic power stations was allocated to Hubei under the national plan during the Twelfth Five-Year period. As a leading firm in this industry in Hubei, Wuhan Rixin expects to receive a majority of this allocation.

Xi'an Jinpower Electrical Co., Ltd. ("Jinpower Electrical") was established in Xi'an, Shaanxi in 2001 and is a high technology enterprise, principally engaged in the research, development and production of intelligent on-line monitoring systems for transmission lines and substation equipment for the power grid. The Fund invested RMB20 million (equivalent to US$3.03 million) in January 2011 for a 5.26% equity interest in Jinpower Electrical.

In 2011, Jinpower Electrical continued to be the winner (in terms of amounts) in bidding for on-line monitoring systems of transmission lines for the State Grid Corporation, and two of its software offerings received a gold award and an innovation award at the 15th International Soft China Conference.

In November 2011, the on-line monitoring system for primary equipment at the Hongqiao substation in Tangshan, Hebei – the first intelligent substation project undertaken by Jinpower Electrical – passed examination in one take by the State Grid Corporation, and also became the foremost on-line monitoring program for all stations of the North China Power Grid. These developments point to Jinpower Electrical's successful expansion from the provision of on-line monitoring for transmission lines to on-line monitoring for primary equipment at substations.

On 9 March 2012, Jinpower Electrical completed a private placement proposal and raised RMB45.84 million. The Fund's stake in Jinpower Electrical decreased from 5.26% to 4.82%.

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.

In 2011, sales and net profit at NTong increased significantly over the previous year, and the company has been successful in adding a group of high quality new customers. Revenue derived from the operation and maintenance of information technology systems and software accounted for over 50% of total revenue, which further enhanced profit margins.

NTong is actively preparing an application to the CSRC in 2012, in order to list its A shares on the GEM Board.

Teralane Semiconductor (Shenzhen) Co., Ltd. ("Teralane Semiconductor") was established in Shenzhen, Guangdong in 2004 and is principally engaged in the design of integrated circuits (IC), the research and development, manufacturing and sale of related products, and the provision of related system integration and technical services. Its current principal products and services comprise: liquid crystal display (LCD) driver ICs, light emitting diode (LED) displays and illumination driver ICs, touch screen display driver ICs, battery pack control ICs, audio and sound control ICs and power management applications. Furthermore, its business covers the entire process of IC design. Teralane Semiconductor is a state-accredited high technology enterprise and software enterprise. The development of IC design and application, on the basis of its proprietary patents and technological research and development is at an advanced level by national standards.

In December 2011, the Fund subscribed to an issuance of convertible bonds by Teralane Semiconductor in the amount of RMB5 million (equivalent to US$0.79 million). The convertible bonds can be converted into an approximately 1.80% equity interest in the enlarged capital of Teralane Semiconductor.

In view of the international competitive environment for the industry in which Teralane Semiconductor operates, and the demand driven by Southern China which serves as an important base for the global electronics manufacturing industry, the cost advantage of Teralane Semiconductor becomes ever more apparent, and these contributed to rapid growth in the company's 2011 annual results.

Teralane Semiconductor has signed an agreement in connection with the acquisition of a competing company. The specific details of the merger and acquisition are being carried out.

China Merchants Plaza (Shanghai) Property Co., Ltd. ("China Merchants Plaza") was incorporated in Shanghai in 1994 to engage in the development of a commercial and business complex. The Fund invested US$5.685 million in 1994 and holds an effective equity interest of 19.8% in China Merchants Plaza. The commercial complex is a 28-storey office/retail building located at North Chengdu Road, Jing'an District, Shanghai, with a remaining 49,438 square metres available for lease. The Fund made a full provision for this investment in 2000 due to the substantial leverage, high financing costs and significant accumulated losses of China Merchants Plaza.

For 2011, China Merchants Plaza recorded an audited net profit of RMB10.11 million, representing an increase of 56% over the same period last year. The improvement in profit was primarily due to a reduction in selling expenses, compared with the exceptionally high selling expenses in 2010, that had resulted from the subsequent recognition of prior years' property tax differences.

REVIEW OF LISTED INVESTMENTS

During 2011, China's A share market rose early in the year, and then declined. From January to April 2011, the market expected to see a reduction in inflationary pressure and a moderate easing of monetary policy, and the SSE Composite Index rose from its low to 3067. However, instead, inflationary pressure increased and the Central Government quickly adopted a tighter monetary policy, which in turn reduced market liquidity. In addition, the U.S. debt ceiling debate, followed by a resurgence of the European sovereign debt crisis, roiled global stock markets and caused the A share market to decline in value from April through the end of the year. As of 31 December 2011, the SSE Composite Index closed at 2199, 21.7% lower than its close of 2808 at the end of 2010, which ranked within the largest declines among global major stock markets, and marked the third largest annual decline in the history of A shares. Other composite indices such as the CSI 300 Index, the SZSE Composite Index, SME Composite Index, GEM Index all recorded sharp declines of 20% to 35% for the year.

The Hong Kong stock market also experienced great volatility during 2011. In response to slowing domestic growth in China and the European sovereign debt crisis, the Hang Seng Index successively slipped from a high of 24469 in early April to a low of 16170 in early October 2011. During the fourth quarter, economic data released by the U.S. was better than expected, and this again eased market fears of recession and drove the Hong Kong stock market to rebound. On 31 December 2011, the Hang Seng Index closed at 18434, down nearly 20% for the year.

The Fund primarily invests directly in high quality investment projects in China, mostly private enterprises. Given the large quantity of shares of listed companies that the Fund still holds, the Fund intends not to increase its exposure to stock markets. Therefore, the Fund did not trade any equities in the secondary market during 2011, except for the disposal of certain IBC shares.

As of 31 December 2011, the Fund had a corporate bond investment that amounted to US$0.73 million (31 December 2010: US$0.72 million). Details are listed below:

Issuer	Business nature	Investment amount *(US$ million)*	Carrying value *(US$ million)*	Coupon	Date of maturity
China Insurance International Holdings (BVI) Limited	Insurance	0.695	0.73	5.800%	12 November 2013
		0.695	**0.73**		

PROSPECTS

In 2012, the world's major economies are expected to grow more slowly and this, in combination with current government policy, may cause China's domestic economic growth to slow to a relatively low range. As growth decelerates, China's trade surplus will narrow and its trade balance will improve. Exports and investment growth may decline, while domestic consumption increases, and this shift will contribute to the economic development of China. Driven by industrial relocation and increased demand for energy and resources, the central and western regions will see more rapid growth, which will be conducive to narrowing the discrepancies between regions. The income of farmers is expected to grow faster than urban residents. Owing to the changes in the supply and demand relationship of labour, the rise in wages is favourable to the improvement of income distribution. Overall, China's economy is expected to slow steadily, with positive progress on economic restructuring. In the face of the notable decline in real estate investment and weak external demand, macroeconomic control measures will be more conservative. The Central Government will continue to pursue an active fiscal policy and a steady monetary policy. As for fiscal policy, the income and expenditure imbalance of the central and local authorities will be resolved through structural reforms of taxation. As for monetary policy, while the aim is structural loosening and optimisation, emphasis will be placed on conservative loosening, rather than stimulative loosening policies. As China sees a transformation in the structure of its domestic economy and upgrades to its industrial base, strategic emerging and service industries backed by the Central Government will evolve gradually, which will provide the Fund with more direct investment opportunities.

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

SUB-PARTICIPATION SCHEME (THE"SCHEME")

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

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

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

As of 31 December 2011, details of aggregate amounts provided by the Participants and their relative proportion to the investment amounts paid by the Fund were as follows:

Name of projects	**Original investment amount of the Fund** *US$**	**Original amounts paid by the Participants** *US$**	**Relative proportion**
Inbank Media** (1st round capital injection)	6,585,600	129,000	1.959%
Wuhan Rixin	2,195,500	43,900	2.000%
Guangzhou Digital	30,737,700	175,500	0.571%
Inbank Media** (2nd round capital injection)	4,394,100	87,500	1.991%
China Media Management	676,100	4,500	0.666%
Geesun Technology	2,929,500	58,000	1.980%
China Media Investment (1st installment capital contribution)	5,858,300	38,800	0.662%
Huaer Optoelectronic	2,226,200	43,800	1.966%
CBN	18,098,200	235,700	1.302%
Jinpower Electrical	3,033,500	60,300	1.988%
China Media Investment (2nd installment capital contribution)	953,500	6,100	0.638%
Renren	11,000,000	218,500	1.986%
Liaoning Zhenlong	2,974,500	59,000	1.986%
NTong	10,409,700	130,300	1.252%
Teralane Semiconductor	789,500	34,200	4.335%

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

** The reorganisation of Inbank Media was completed in the fourth quarter of 2011, and Inbank Media was replaced by Unibank Media as an investee.

In addition, as of 31 December 2011, details of the amounts paid by Directors of the Fund as well as a Director of the Investment Manager for the Scheme were as follows:

Name of projects	**Mr. HONG Xiaoyuan** (Note 1) *US$*	**Ms. ZHOU Linda Lei** (Note 2) *US$*	**Mr. TSE Yue Kit** (Note 3) *US$*	**Mr. WU Huifeng** (Note 4) *US$*
Inbank Media* (1st round capital injection)	12,900	12,900	1,290	12,900
Wuhan Rixin	3,510	4,390	1,290	3,510
Guangzhou Digital	12,900	25,810	1,290	12,900
Inbank Media* (2nd round capital injection)	6,950	8,750	1,290	6,950
China Media Management	300	580	30	300
Geesun Technology	4,640	5,800	1,290	4,640
China Media Investment (1st installment capital contribution)	2,500	5,010	250	2,500
Huaer Optoelectronic	3,500	4,380	1,290	3,500
CBN	12,850	25,700	1,290	25,700
Jinpower Electrical	4,830	6,030	1,280	4,830
China Media Investment (2nd installment capital contribution)	390	780	40	390
Renren	12,870	21,870	1,290	17,500
Liaoning Zhenlong	4,720	5,900	1,280	4,720
NTong	16,420	12,830	1,280	16,420
Teralane Semiconductor	3,090	3,860	1,290	3,090

Note 1: Director of the Fund and Chairman of the Investment Manager
Note 2: Director of the Fund and Managing Director of the Investment Manager
Note 3: Director of the Fund and Director of the Investment Manager
Note 4: Director of the Investment Manager

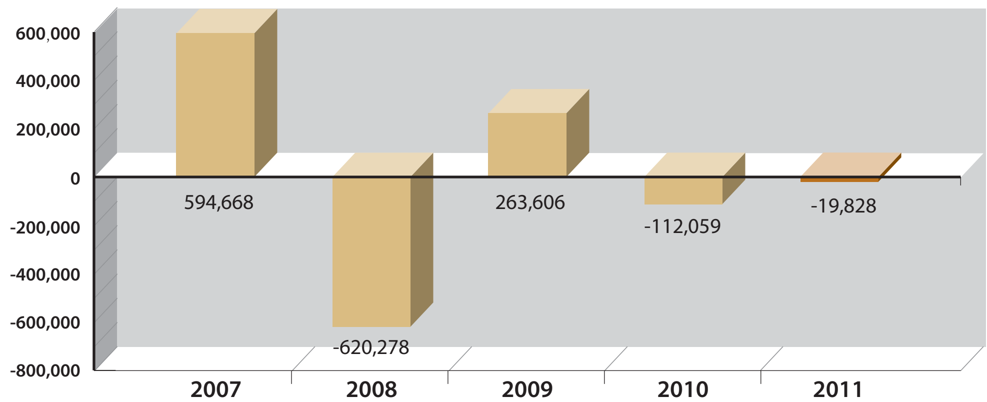
* The reorganisation of Inbank Media was completed in the fourth quarter of 2011, and Inbank Media was replaced by Unibank Media as an investee.

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

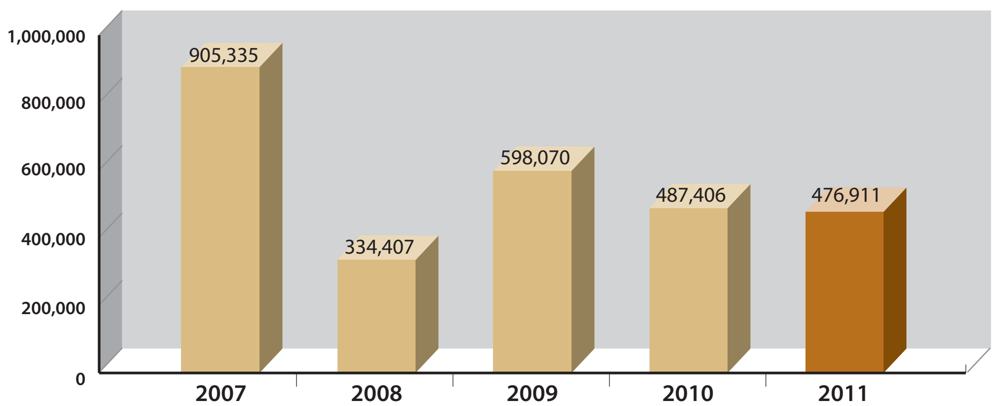
Hong Kong, 29 March 2012

YEAR	NET PROFIT (LOSS) *(US$'000)*	NET ASSETS *(US$'000)*
2011	**(19,828)**	**476,911**
2010	(112,059)	487,406
2009	263,606	598,070
2008	(620,278)	334,407
2007	594,668	905,335

NET PROFIT (LOSS) (US$'000)



NET ASSETS (US$'000)



The Directors present their annual report and the audited consolidated financial statements for the year ended 31 December 2011.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. The activities of the subsidiaries and associates are set out in notes 32 and 15 respectively to the financial statements.

RESULTS

The results of the Group for the year ended 31 December 2011 are set out in the consolidated statement of comprehensive income on page 46.

The Directors recommend the payment of a final dividend of US$0.04 per share (2010: US$0.04) and a special dividend of US$0.08 per share (2010: US$0.07), totalling US$0.12 per share (2010: US$0.11) for 2011 to the shareholders on the register of members on 23 May 2012 amounting to US$18,179,884 (2010: US$16,406,016).

DISTRIBUTABLE RESERVES OF THE COMPANY

The Company has an amount of US$159,849,343 (31 December 2010: US$98,378,816) available for distribution as at 31 December 2011.

SHARE CAPITAL

Details of the issued share capital of the Company are set out in note 25 to the financial statements.

EMOLUMENT POLICY

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

PURCHASE, SALE OR REDEMPTION OF SHARES OF THE COMPANY

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

DIRECTORS

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

Executive Directors

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

Non-executive Director

Mr. KE Shifeng

Independent Non-executive Directors

Mr. LI Kai Cheong, Samson	
Mr. LIU Baojie	
Mr. XIE Tao	(appointed on 28 October 2011)
Mr. ZHU Li	(appointed on 28 October 2011)
Mr. KUT Ying Hay	(resigned on 28 October 2011)
Mr. WANG Jincheng	(resigned on 28 October 2011)

* *members of Investment Committee*

In accordance with Article 101 and Article 105 of the Company's Articles of Association, Mr. CHU Lap Lik, Victor, Ms. ZHOU Linda Lei, Mr. KE Shifeng, Mr. LIU Baojie, Mr. XIE Tao and Mr. ZHU Li retire and, being eligible, offer themselves for re-election.

The Company has received annual confirmation from each of the Independent Non-executive Directors as regards their independence 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

Directors:

Mr. LI Yinquan, aged 57, has been the Chairman and an Executive Director of the Company since July 2008. He is currently a Vice President of China Merchants Group Limited and the Chairman of China Merchants Finance Holdings Company Limited, both of the companies are substantial shareholders of the Company. He is also a Director of China Merchants Holdings (International) Company Limited (its shares are listed on the Hong Kong Stock Exchange) and China Merchants Bank Co., Ltd. (its shares are listed on both the Shanghai Stock Exchange and the Hong Kong Stock Exchange). Mr. LI joined China Merchants Group Limited in January 2000 and has served respectively as the General Manager of Finance Department, Deputy Chief Financial Officer, Chief Financial Officer and Vice President and Chief Financial Officer. Mr. LI previously worked with the Agricultural Bank of China for 14 years, where he held senior posts in various divisions and was the Deputy General Manger of Hong Kong Branch just before leaving for China Merchants Group Limited. Mr. LI obtained a master degree in Economics from the Graduate School of the People's Bank of China in 1986 and a master degree in Banking & Finance from the Finafrica Institute in Milan, Italy in 1988. He is also a qualified senior economist in China. Mr. LI was once honoured as "China CFO of the Year for 2005" and "China Best CIO for the Year 2006".

Mr. HONG Xiaoyuan, aged 49, has been an Executive Director of the Company since June 2007. He is currently an Assistant President of China Merchants Group Limited and the Managing Director of China Merchants Finance Holdings Company Limited, both of the companies are substantial shareholders of the Company. He is the Chairman of the Investment Manager. He is also a Director of China Merchants Bank Co., Ltd. (its shares are listed on both the Shanghai Stock Exchange and the Hong Kong Stock Exchange), China Merchants Securities Co., Ltd. (its shares are listed on the Shanghai Stock Exchange), Great Wall Securities Co., Ltd., China Credit Trust Co., Ltd. and Morgan Stanley Huaxin Fund Management Co., Ltd.; and the Chairman of China Merchants Holdings (UK) Limited, China Merchants Industry Development (Shenzhen) Limited, China Merchants Insurance Company Limited, Houlder Insurance Brokers Far East Limited and China Merchants Kunlun Equity Investment Management Co., Ltd.. Mr. HONG obtained a master degree in Economics from Peking University in 1988 and a master of science degree from The Australian National University in 1992.

Mr. CHU Lap Lik, Victor, aged 54, has been an Executive Director of the Company since June 1993 and holds directorship in the Investment Manager and a subsidiary of the Company. He is also Chairman of First Eastern Investment Group which is actively involved in direct investments in the PRC. Mr. CHU has served on the Central Policy Unit of the Hong Kong Government, the Council of the Hong Kong Stock Exchange, the Takeovers and Mergers Panel and the Advisory Committee of the Securities and Futures Commission. Outside of Hong Kong, Mr. CHU is a Foundation Board Member of the World Economic Forum in Geneva, a Board Member of Zurich Financial Services AG and Siam Select Fund Limited. Mr. CHU took his law degree at University College London.

Ms. ZHOU Linda Lei, aged 43, has been an Executive Director of the Company since March 2008 and holds directorship in various subsidiaries of the Company. She was an Executive Director of the Company during the period from March 2002 to September 2005 and the Managing Director of the Investment Manager during the period from March 2002 to July 2005. Ms. ZHOU was re-appointed as the Managing Director of the Investment Manager in February 2008. Before joining the Investment Manager in April 2001, Ms. ZHOU worked with ASI as a Director of Business Development – Asia Pacific Region for three years and thereafter acted as a senior financial analyst and an advisor of Board of Advisory in iLink Global. Just prior to rejoining the Investment Manager in February 2008, Ms. ZHOU worked with China International Marine Containers (Group) Co., Ltd. and was responsible for leading the South America project team. Ms. ZHOU is currently a Director of China Business Network, Guangzhou Digital Media Group Ltd. and Inbank Media (China) Co., Ltd. and a Supervisor of Industrial Bank Co., Ltd.. Ms. ZHOU is also an Independent Non-executive Director of Jiangxi Shihong Co., Ltd. and China Merchants Fund Management Co., Ltd.. Ms. ZHOU has extensive experience in positioning foreign companies in China market and has actively involved with direct investments in China. Ms. ZHOU obtained her bachelor degree in Financial Accountancy from People's (Renmin) University of China in 1989 and Master of Business Administration degree from California State University at Sonoma in 1993.

Mr. TSE Yue Kit, aged 50, has been an Executive Director of the Company since November 2000. He is also a Director of the Investment Manager. Mr. TSE is the General Manager in Direct Investment Division of China Merchants Finance Holdings Company Limited, which is a substantial shareholder of the Company. Mr. TSE has a number of years extensive experience in accounting, auditing, corporate finance as well as investment. Mr. TSE is licensed with the Securities and Futures Commission in Hong Kong as responsible officer. Mr. TSE obtained his bachelor degree with honours in Accountancy from the University of Exeter, UK.

Ms. KAN Ka Yee, Elizabeth (alternate to Mr. CHU Lap Lik, Victor), aged 54, 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 Monitise Asia Pacific Limited, Evolution Securities China Limited, Siam Select Fund Limited and Camper & Nicholsons First Eastern Limited as well as certain subsidiaries of the Company. Ms. KAN was Deputy Managing Director and a Director of the Investment Manager from 1993 to 2006. Ms. KAN is licensed with the Securities and Futures Commission in Hong Kong. She is a Certified Public Accountant (U.S.A.) and a Fellow of the Hong Kong Institute of Certified Public Accountants. Ms. KAN is also a Member of the Hong Kong Securities 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 46, has been a Non-executive Director of the Company since December 2009. He has 15 years investment experience. Mr. KE was employed by Martin Currie Investment Management Limited ("**Martin Currie**") between 1997 and 2006 to provide research and investment management services to certain of its clients investing in the Greater China and Taiwan markets. He also served as a Director of Martin Currie from February 2004 to June 2006. In 2006, Mr. KE and his partner left Martin Currie to form Heartland Capital Management Ltd. ("**Heartland**"); Heartland and Martin Currie established MC China Ltd. – a joint venture dedicated to running a range of specialist China strategies, including the China Fund Inc. (a NYSE listed company), Martin Currie China Hedge Fund and Martin Currie China A Share Fund. In November 2011, Mr. KE and his partner took over this joint venture and co-founded Open Door Capital Management. Mr. KE practiced law before moving to China's Ministry of Labour and Social Security where he had served from 1990 to 1996 and was responsible for the development of regulations and investment policies for pension funds. Mr. KE holds an MBA degree from The University of Edinburgh, UK.

Mr. LI Kai Cheong, Samson, aged 51, has been an Independent Non-executive Director of the Company since August 2008. He was the Alternate Director to Dr. The Hon. David LI Kwok-po during the period from May 1999 to August 2008. Mr. LI is the Deputy Chief Executive & Chief Investment Officer of The Bank of East Asia, Limited whose shares are listed on the Hong Kong Stock Exchange. Mr. LI has more than twenty years of experience specializing in fund management and securities dealing. He is also the Managing Director of East Asia Securities Company Limited, a member of the Hong Kong Stock Exchange, as well as a Director of various companies in broking and asset management businesses. Mr. LI has been a Member of the Listing Committee of the Hong Kong Stock Exchange since July 2010. Mr. LI is a Fellow of The Hong Kong Institute of Chartered Secretaries, the Institute of Chartered Secretaries & Administrators, and The Association of Chartered Certified Accountants. In addition, he is an Associate of the Hong Kong Institute of Certified Public Accountants and a Member of the Hong Kong Securities Institute. Mr. LI received his Professional Diploma in Accountancy from The Hong Kong Polytechnic University.

Mr. LIU Baojie, aged 48, has been an Independent Non-executive Director of the Company since December 2009. He has over 15 years of experience in the financial services industry. He is currently Chief Executive Officer of Huaneng Invesco WLR Investment Consulting 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, etc. Mr. LIU holds an MBA degree from University of Utah, USA.

Mr. XIE Tao, aged 48, was appointed as an Independent Non-executive Director of the Company on 28 October 2011. He is currently the Chief Executive Officer and a Director of Agria Corporation, a company listed on the New York Stock Exchange. Previously, Mr. XIE engaged in the advisory practice at PricewaterhouseCoopers for 22 years where he led the China market corporate finance practice of PricewaterhouseCoopers and served on the firm's management board. Mr. XIE has extensive experience in China related cross-border investments, merger and acquisition and corporate restructuring. Mr. XIE is also a Director of PGG Wrightson Limited, a company listed on the New Zealand Stock Exchange; an Independent Non-executive Director of China Mengniu Dairy Company Limited, a company listed on the Hong Kong Stock Exchange and Tongyu Heavy Industry Ltd., a company listed on the Shenzhen Stock Exchange. Mr. XIE received his bachelor degree in Physics from Peking University and is a Member of The Association of Chartered Certified Accountants, UK.

Mr. ZHU Li, aged 63, was appointed as an Independent Non-executive Director of the Company on 28 October 2011. He is now the founding partner of Beijing Hong Lu Hao Lin Investment Management Centre (Limited Partnership). Previously, Mr. ZHU worked in the State Commission for Restructuring Economic System of China from 1982 to 1992. He served as the Head of the Finance Department and the Deputy Director of the Macro System Division. During that period, he had been to Germany to study finance and learned and worked in various commercial banks. In October 1992, Mr. ZHU became the first Secretary General of the China Securities Regulatory Commission ("**CSRC**") once after it was established, and served as the Deputy Chairman and Secretary General of the CSRC from August 1994. Since 1996, he had worked in various financial institutions in China, including serving as the Vice President of the Agricultural Development Bank of China, the President of China Galaxy Securities Company Limited and the Chairman of China Galaxy Financial Holdings Limited, etc. Mr. ZHU not only possesses years of experience in the financial services industry, but also has years of experience in the decision-making departments for state's economy and finance in China. In particular, he had contributed to the establishment, regulation and development of China's securities market during his term in the CSRC. Mr. ZHU received his bachelor degree from Beijing School of Economics.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SHARES

As at 31 December 2011, the interests of the Directors and their associates in the shares of the Company as recorded in the register maintained by the Company pursuant to Section 352 of the Securities and Futures Ordinance (the "**SFO**") or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, were as follows:

Name of director	Number of issued ordinary shares	Capacity	Percentage of total issued share capital
Mr. CHU Lap Lik, Victor	3,224,000	Interest of controlled corporation	2.13%

Save as disclosed above, none of the Directors or chief executives, or their associates, had any interests or short positions in any shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of the SFO) as recorded in the register required to be kept under Section 352 of the SFO as at 31 December 2011, 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 2011.

ARRANGEMENTS TO ACQUIRE SHARES OR DEBENTURES

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

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

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

DIRECTORS' SERVICE CONTRACTS

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

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2011, the following persons, other than a Director or chief executive of the Company, had interests in the shares of the Company as recorded in the register of the Company required to be kept under Section 336 of the SFO:

Name	Long/ short position	Capacity	Number of ordinary shares interested	Percentage of total issued shares
China Merchants Group Limited (Note 3)	Long position	Interest of controlled corporation	38,964,319	25.72%
China Merchants Steam Navigation Company Limited (Note 3)	Long position	Interest of controlled corporation	38,964,319	25.72%
China Merchants Holdings (Hong Kong) Company Limited (Note 1)	Long position	Interest of controlled corporation	38,964,319	25.72%
China Merchants Finance Holdings Company Limited (Note 2)	Long position	Interest of controlled corporation	38,964,319	25.72%
China Merchants Financial Services Limited (Note 3)	Long position	Interest of controlled corporation	36,028,197	23.78%
Good Image Limited	Long position	Beneficial owner	36,028,197	23.78%
Lazard Asset Management LLC	Long position	Investment manager	29,610,100	19.54%
UBS AG	Long position	Beneficial owner	6,000	8.01%
		Security interest	12,131,000	
Kuchanny Christopher Philip Charles (Note 4)	Long position	Interest of controlled corporation	10,440,191	6.89%
Osmium Capital Management Limited	Long position	Investment manager	10,440,191	6.89%
Osmium Special Situations Fund Limited	Long position	Beneficial owner	10,440,191	6.89%
華夏全球精選股票型證券投資基金	Long position	Beneficial owner	9,682,000	6.39%

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

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

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

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

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

PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of its Directors, throughout the year of 2011, there is sufficient public float of not less than 25% of the Company's issued shares as required under the Listing Rules.

CONTINUING CONNECTED TRANSACTIONS

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

1. Investment Management Agreement

China Merchants China Investment Management Limited, a company incorporated in Hong Kong, is the Investment Manager of the Company for both listed and unlisted investments. Mr. HONG Xiaoyuan, Mr. CHU Lap Lik, Victor, Ms. ZHOU Linda Lei and Mr. TSE Yue Kit 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 Investment Management Agreement entered into between the Company and the Investment Manager (the "**Investment Management Agreement**") on 5 February 2010 became effective on 15 July 2010 and is for a fixed term ending on 31 December 2012. Thereafter, subject to and conditional upon compliance with all applicable requirements under Chapter 14A of the Listing Rules, the appointment of the Investment Manager under the Investment Management Agreement shall be automatically renewed for further periods of three years after the expiry of each fixed term unless either party shall at least six months prior to such expiry date give notice to the other party not to renew the appointment, whereupon the Investment Management Agreement will terminate at the end of the then current fixed period.

For the year ended 31 December 2011, the management fees which were calculated based on a fixed percentage on the value of the Group's assets as stipulated in the Investment Management Agreement totalling US$9,869,331 (2010: US$11,519,577) were paid or payable to the Investment Manager.

CONTINUING CONNECTED TRANSACTIONS (continued)

2. Brokerage Agreements

On 8 November 2010, China Merchants Industry Development (Shenzhen) Limited ("**CMID**"), a wholly-owned subsidiary of the Company renewed the brokerage agreement and supplemental brokerage agreement (the "**Renewed Brokerage Agreements**") with China Merchants Securities Co., Ltd. ("**CMS**") in relation to the securities brokerage services provided by CMS to CMID for a term of three years. The Renewed Brokerage Agreements took effect on 13 December 2010. CMS is a subsidiary of a substantial shareholder of the Company and is therefore a connected person of the Company under Chapter 14A of the Listing Rules. For the year ended 31 December 2011, the securities brokerage commission fee totalling US$41,015 (2010: US$70,714) was paid or payable to CMS.

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

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

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

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

Pursuant to Rule 14A.38 of the Listing Rules, the Company engaged its external auditor to report on the Group's continuing connected transactions 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 transactions set out above in accordance with Rule 14A.38 of the Listing Rules.

Save as disclosed above, details of significant related party transactions are disclosed in note 31 to the financial statements.

EVENTS AFTER THE REPORTING PERIOD

Details of significant events occurring after the reporting period are set out in note 30 to the financial statements.

AUDITOR

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

On behalf of the Board

Mr. HONG Xiaoyuan
Director

Hong Kong, 29 March 2012

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

According to the existing Investment Management Agreement, the portfolio and day-to-day administration of the Company are handled by the Investment Manager. Meanwhile, except the qualified accountant whose remuneration packages are determined and borne by the Investment Manager, the Company has no salaried employees. Thus, no Remuneration Committee has been established by the Company, and it is suitable for the Company to hold regular Board meeting twice a year at a minimum.

Besides, at the forthcoming annual general meeting of the Company, resolutions will be put forth to approve the re-election of Mr. XIE Tao and Mr. ZHU Li as Directors of the Company pursuant to Article 101 of the Articles of Association of the Company. However, according to the code provision A.4.2, all Directors appointed to fill a casual vacancy should be subject to election by shareholders at the first general meeting after their appointment, i.e. the extraordinary general meeting of the Company held on 5 December 2011.

THE BOARD OF DIRECTORS

As at 31 December 2011, the Board consisted of five Executive Directors, one Non-executive Director and four Independent Non-executive Directors as defined by the Listing Rules. The biography of the Directors are set out on pages 28 to 33 of the Annual Report.

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

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

THE BOARD OF DIRECTORS (continued)

	Attendance/number of regular meetings during the Director's term of office in 2011 (Note)
Executive Directors:	
Mr. LI Yinquan *(Chairman)*	3/3
Mr. HONG Xiaoyuan	3/3
Mr. CHU Lap Lik, Victor	0/3
Ms. ZHOU Linda Lei	3/3
Mr. TSE Yue Kit	3/3
Non-executive Director:	
Mr. KE Shifeng	3/3
Independent Non-executive Directors:	
Mr. LI Kai Cheong, Samson	3/3
Mr. LIU Baojie	3/3
Mr. XIE Tao *(appointed on 28 October 2011)*	0/0
Mr. ZHU Li *(appointed on 28 October 2011)*	0/0
Mr. KUT Ying Hay *(resigned on 28 October 2011)*	2/3
Mr. WANG Jincheng *(resigned on 28 October 2011)*	2/3
Alternate Director:	
Ms. KAN Ka Yee, Elizabeth *(alternate to Mr. CHU Lap Lik, Victor)*	3/3

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. LI Yinquan 1/1; Mr. HONG Xiaoyuan 1/1; Mr. CHU Lap Lik, Victor 0/1; Ms. ZHOU Linda Lei 1/1; Mr. TSE Yue Kit 1/1; Mr. KE Shifeng 1/1; Mr. LI Kai Cheong, Samson 1/1; Mr. LIU Baojie 1/1; Mr. XIE Tao 0/0; Mr. ZHU Li 0/0; Mr. KUT Ying Hay 1/1; Mr. WANG Jincheng 1/1; and 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 or the Investment Committee may take independent professional advice if they so wish at the expense of the Company, as arranged by the Company Secretary.

THE BOARD OF DIRECTORS (continued)

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

The Audit Committee

The Board has established an Audit Committee with specific written terms of reference which follows the guidelines set out by the Hong Kong Institute of Certified Public Accountants and the requirements of the Code. The terms of reference of the Audit Committee (revised in March 2012) are available on the Company's website. All Committee members including the Chairman are Independent Non-executive Directors. The duties of the Audit Committee include but not limited to the following:

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

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

	Attendance/ number of meetings
Directors:	
Mr. LI Kai Cheong, Samson *(Chairman of the Audit Committee)*	2/2
Mr. XIE Tao *(appointed on 28 October 2011)*	0/0
Mr. ZHU Li *(appointed on 28 October 2011)*	0/0
Mr. KUT Ying Hay *(resigned on 28 October 2011)*	2/2
Mr. WANG Jincheng *(resigned on 28 October 2011)*	2/2

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

- reviewed and recommended the Board to approve the audit fee proposal for the year 2011;
- reviewed the interim report and the interim results announcement for the six months ended 30 June 2011;
- reviewed the audit plan for the year 2011 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 2010; and
- considered the internal controls assessment report prepared by the Company's independent auditor.

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

THE BOARD OF DIRECTORS (continued)

The Investment Committee

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

During the year under review, the Investment Committee has approved a proposal in relation to the subscription for rights issue of A shares of CMB. In addition, it has approved the disposal of the Company's entire holding of A shares of both CMB and IBC.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Mr. LI Yinquan is the Chairman of the Company. The functions of the Chief Executive Officer have been undertaken by the Investment Manager. The Managing Director of the Investment Manager is Ms. ZHOU Linda Lei, 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.

DIRECTORS' SECURITIES TRANSACTIONS

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

REMUNERATION OF DIRECTORS

The Company does not have a Remuneration Committee since the Company has no salaried employees, except the qualified accountant whose remuneration packages are determined and borne by the Investment Manager. The remuneration of the Directors is determined by the shareholders at the annual general meeting of the Company. At the annual general meeting of the Company held on 19 May 2011, it was resolved that the remuneration of the Directors for the year ending 31 December 2011 be fixed by the Board. The total remuneration payable to the Directors for the year ended 31 December 2011 is stated in note 9 to the financial statements.

NOMINATION OF DIRECTORS

The Company did not have a Nomination Committee during the year under review. The Board as a whole was responsible for the procedure of the appointment of its members and for nominating appropriate person for election by shareholders at the annual general meeting, either to fill a casual vacancy or as an addition to the existing Directors. The Board has considered and assessed the qualification, ability and potential contribution of candidates for directorships on the Board.

At a board meeting held on 27 October 2011 with the presence of all Directors and an Alternate Director except Mr. CHU Lap Lik, Victor, Mr. KUT Ying Hay and Mr. WANG Jincheng, Mr. XIE Tao and Mr. ZHU Li were appointed as Independent Non-executive Directors of the Company with effect from 28 October 2011 following the resignation of Mr. KUT Ying Hay and Mr. WANG Jincheng.

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

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

On 29 March 2012, the Board resolved to establish a Nomination Committee. The Committee members comprise Mr. LI Yinquan, Mr. XIE Tao and Mr. ZHU Li. The terms of reference of the Nomination Committee are available on the Company's website.

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$168,236 and for non-audit services provided is US$46,872 which was mainly for the purpose of reviewing the internal control systems of the Company, and the circular relating to renewal of the mandates for the proposed disposal of shares in CMB and IBC.

FINANCIAL REPORTING

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

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

The statement of the independent auditor of the Company about their reporting responsibilities on the financial statements is set out in the Independent Auditor's Report on page 44.

INTERNAL CONTROL

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

INVESTOR RELATIONSHIP AND COMMUNICATION

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

The general meetings, including annual general meetings, provide a useful forum for shareholders to exchange their views with the Board. Separate resolutions are proposed at the general meetings on each substantially separate issue, including the subscription of CMB A rights shares, re-election of retiring Directors, very substantial disposals, etc.

The Company (through the Investment Manager) has also actively responded to the investors' queries by emails 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.

Deloitte.
德勤

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

We have audited the consolidated financial statements of China Merchants China Direct Investments Limited (the "**Company**") and its subsidiaries (collectively referred to as the "**Group**") set out on pages 46 to 93, which comprise the consolidated and Company's statements of financial position as at 31 December 2011, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY 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 Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

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

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

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

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2011 and of the Group's loss and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu
Certified Public Accountants

Hong Kong
29 March 2012

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2011

	Notes	**2011** **US$**	2010 US$
Change in fair value of financial assets at fair value through profit or loss		**(19,745,991)**	(140,043,610)
Investment income	6	**17,330,254**	13,088,836
Other gains and losses		**499,670**	179,195
Administrative expenses		**(15,762,196)**	(26,733,102)
Share of results of associates	15	**58,112**	2,203,129
Gain on deemed disposal of associate	15	**-**	2,523,001
Loss before taxation	8	**(17,620,151)**	(148,782,551)
Taxation	11	**(2,207,479)**	36,723,056
Loss for the year		**(19,827,630)**	(112,059,495)
Other comprehensive income			
Exchange difference arising on translation		**21,294,983**	14,899,642
Share of change in translation reserve of associates		**121,604**	1,386,656
Change in fair value of available-for-sale financial assets		**4,694**	23,666
Other comprehensive income for the year		**21,421,281**	16,309,964
Total comprehensive income (loss) for the year		**1,593,651**	(95,749,531)
Loss for the year attributable to owners of the Company		**(19,827,630)**	(112,059,495)
Total comprehensive income (loss) attributable to owners of the Company		**1,593,651**	(95,749,531)
Basic loss per share	13	**(0.132)**	(0.751)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2011

	Notes	2011 US$	2010 US$
Non-current assets			
Interests in associates	15	**22,890,874**	22,382,129
Financial assets at fair value through profit or loss	16	**219,725,630**	207,681,626
Available-for-sale financial assets	17	**726,698**	722,004
		243,343,202	230,785,759
Current assets			
Financial assets at fair value through profit or loss	16	**215,401,697**	307,667,689
Other receivables	19	**1,612,182**	299,032
Bank balances and cash	20	**95,824,723**	63,282,735
		312,838,602	371,249,456
Current liabilities			
Other payables	21	**21,050,450**	34,857,649
Taxation payable	22	**3,999,297**	5,015,328
		25,049,747	39,872,977
Net current assets		**287,788,855**	331,376,479
Total assets less current liabilities		**531,132,057**	562,162,238
Non-current liabilities			
Financial liabilities at fair value through profit or loss	23	**1,268,441**	661,699
Deferred taxation	24	**52,953,100**	74,094,298
		54,221,541	74,755,997
Net assets		**476,910,516**	487,406,241

At 31 December 2011

	Notes	**2011** **US$**	2010 US$
Capital and reserves			
Share capital	25	**15,149,904**	14,914,560
Share premium and reserves		**228,287,230**	202,149,946
Retained profits		**233,473,382**	270,341,735
Equity attributable to owners of the Company		**476,910,516**	487,406,241
Net asset value per share	27	**3.148**	3.268

The consolidated financial statements on pages 46 to 93 were approved and authorised for issue by the Board of Directors on 29 March 2012 and are signed on its behalf by:

Mr. HONG Xiaoyuan
Director

Ms. ZHOU Linda Lei
Director

As at 31 December 2011

	Notes	2011 US$	2010 US$
Non-current assets			
Investments in subsidiaries	14	**26,050,007**	21,160,007
Financial assets at fair value through profit or loss	16	**40,604,327**	53,223,154
Amounts due from subsidiaries	18	**66,953,575**	67,685,297
		133,607,909	142,068,458
Current assets			
Amounts due from subsidiaries	18	**190,409,417**	152,537,587
Other receivables	19	**24,255**	22,963
Bank balances and cash	20	**2,901,837**	3,766,226
		193,335,509	156,326,776
Current liabilities			
Amounts due to subsidiaries	18	**4,842,326**	4,786,428
Other payables	21	**2,710,492**	21,307,318
Taxation payable	22	**3,842,500**	5,746,904
		11,395,318	31,840,650
Net current assets		**181,940,191**	124,486,126
Total assets less current liabilities		**315,548,100**	266,554,584
Non-current liabilities			
Financial liabilities at fair value through profit or loss	23	**1,268,441**	661,699
Deferred taxation	24	**2,530,559**	3,792,442
		3,799,000	4,454,141
Net assets		**311,749,100**	262,100,443
Capital and reserves			
Share capital	25	**15,149,904**	14,914,560
Share premium and reserves	26	**296,599,196**	247,185,883
Equity attributable to owners of the Company		**311,749,100**	262,100,443

Mr. HONG Xiaoyuan
Director

Ms. ZHOU Linda Lei
Director

For the year ended 31 December 2011

	Share capital US$	Share premium US$	Translation reserve US$	General reserve US$	Available-for-sale financial assets reserve US$	Retained profits US$	Equity attributable to owners of the Company US$
Balance at 1 January 2010	14,914,560	109,493,184	70,206,542	5,904,125	1,199	397,550,722	598,070,332
Loss for the year	–	–	–	–	–	(112,059,495)	(112,059,495)
Exchange difference on translation	–	–	14,899,642	–	–	–	14,899,642
Share of change in translation reserve of associates	–	–	1,386,656	–	–	–	1,386,656
Change in fair value of available-for-sale financial assets	–	–	–	–	23,666	–	23,666
Total comprehensive income (loss) for the year	–	–	16,286,298	–	23,666	(112,059,495)	(95,749,531)
2009 final and special dividends paid	–	–	–	–	–	(14,914,560)	(14,914,560)
Transfer to general reserve	–	–	–	234,932	–	(234,932)	–
Balance at 31 December 2010	14,914,560	109,493,184	86,492,840	6,139,057	24,865	270,341,735	487,406,241
Balance at 1 January 2011	**14,914,560**	**109,493,184**	**86,492,840**	**6,139,057**	**24,865**	**270,341,735**	**487,406,241**
Loss for the year	**–**	**–**	**–**	**–**	**–**	**(19,827,630)**	**(19,827,630)**
Exchange difference on translation	**–**	**–**	**21,294,983**	**–**	**–**	**–**	**21,294,983**
Share of change in translation reserve of associates	**–**	**–**	**121,604**	**–**	**–**	**–**	**121,604**
Change in fair value of available-for-sale financial assets	**–**	**–**	**–**	**–**	**4,694**	**–**	**4,694**
Total comprehensive income (loss) for the year	**–**	**–**	**21,416,587**	**–**	**4,694**	**(19,827,630)**	**1,593,651**
2010 final and special dividends paid							
– Cash	**–**	**–**	**–**	**–**	**–**	**(12,089,376)**	**(12,089,376)**
– Scrip alternative	**235,344**	**4,081,296**	**–**	**–**	**–**	**(4,316,640)**	**–**
Transfer to general reserve	**–**	**–**	**–**	**634,707**	**–**	**(634,707)**	**–**
Balance at 31 December 2011	**15,149,904**	**113,574,480**	**107,909,427**	**6,773,764**	**29,559**	**233,473,382**	**476,910,516**

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.

For the year ended 31 December 2011

	2011	2010
	US$	*US$*
OPERATING ACTIVITIES		
Loss before taxation	**(17,620,151)**	(148,782,551)
Adjustments for:		
Share of results of associates	**(58,112)**	(2,203,129)
Gain on deemed disposal of associate	**–**	(2,523,001)
Other gains and losses	**(309,007)**	–
Interest income	**(2,085,396)**	(935,355)
Dividend income from equity investments	**(15,244,858)**	(12,153,481)
Change in fair value of financial assets designated at fair value through profit or loss	**34,966,753**	111,835,936
Operating cash flows before movements in working capital	**(350,771)**	(54,761,581)
Decrease in financial assets at fair value through profit or loss	**67,713,173**	74,426,198
(Increase) decrease in other receivables	**(20,084)**	82,711
Decrease in other payables	**(13,692,997)**	(37,010,377)
Increase in financial liabilities designated at fair value through profit or loss	**492,540**	456,978
Cash generated from (used in) operations	**54,141,861**	(16,806,071)
Interest received	**855,432**	1,185,733
Dividend received	**15,244,858**	11,903,850
Income taxes paid	**(27,563,727)**	(52,078,166)
NET CASH GENERATED FROM (USED IN) OPERATING ACTIVITIES	**42,678,424**	(55,794,654)
INVESTING ACTIVITIES		
Advance to associates	**(20,022)**	(610)
Repayment of capital from associate	**–**	720,937
Dividend received from associate	**–**	662,037
NET CASH (USED IN) GENERATED FROM INVESTING ACTIVITIES	**(20,022)**	1,382,364
CASH USED IN FINANCING ACTIVITY		
Dividend paid	**(12,089,376)**	(14,914,560)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**30,569,026**	(69,326,850)
CASH AND CASH EQUIVALENTS AS AT 1 JANUARY	**63,282,735**	129,600,520
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	**1,972,962**	3,009,065
CASH AND CASH EQUIVALENTS AS AT 31 DECEMBER	**95,824,723**	63,282,735

1. GENERAL INFORMATION

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 acts as an investment holding company. The activities of the principal subsidiaries and associates are set out in notes 32 and 15 respectively.

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 REVISED HONG KONG FINANCIAL REPORTING STANDARDS

In the current year, the Group and the Company have applied, for the first time, the following new and revised Standards, Amendments and Interpretations ("**new and revised HKFRSs**") issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**").

HKFRSs (Amendments)	Improvements to HKFRSs issued in 2010
HKAS 24 (Revised)	Related party disclosures
HKAS 32 (Amendment)	Classification of rights issues
HK(IFRIC) – Int 14 (Amendment)	Prepayments of a minimum funding requirement
HK(IFRIC) – Int 19	Extinguishing financial liabilities with equity instruments

The application of the above new and revised HKFRSs in the current year has had no material effect on the amounts reported in these consolidated financial statements and/or disclosures set out in these consolidated financial statements.

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

New and revised HKFRSs in issue but not yet effective

The Group and the Company have not early applied the following new and revised HKFRSs that have been issued but are not yet effective:

HKFRS 7 (Amendments)	Financial instruments: Disclosures – Transfers of financial assets[1]
HKFRS 7 (Amendments)	Financial instruments: Disclosures – Offsetting financial assets and financial liabilities[2]
HKFRS 9 and 7 (Amendments)	Mandatory effective date of HKFRS 9 and transition disclosures[3]
HKFRS 9	Financial instruments[3]
HKFRS 10	Consolidated financial statements[2]
HKFRS 11	Joint arrangements[2]
HKFRS 12	Disclosure of interests in other entities[2]
HKFRS 13	Fair value measurement[2]
HKAS 1 (Revised) (Amendments)	Presentation of financial statements – Presentation of items of other comprehensive income[5]
HKAS 12 (Amendments)	Deferred tax – Recovery of underlying assets[4]
HKAS 19 (as revised in 2011)	Employee benefits[2]
HKAS 27 (as revised in 2011)	Separate financial statements[2]
HKAS 28 (as revised in 2011)	Investments in associates and joint ventures[2]
HKAS 32 (Amendments)	Financial instruments: Presentation – Offsetting financial assets and financial liabilities[6]
HK(IFRIC) – Int 20	Stripping costs in the production phase of a surface mine[2]

1 Effective for annual periods beginning on or after 1 July 2011.
2 Effective for annual periods beginning on or after 1 January 2013.
3 Effective for annual periods beginning on or after 1 January 2015.
4 Effective for annual periods beginning on or after 1 January 2012.
5 Effective for annual periods beginning on or after 1 July 2012.
6 Effective for annual periods beginning on or after 1 January 2014.

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

HKFRS 9 *Financial Instruments*

HKFRS 9 issued in 2009 introduces new requirements for the classification and measurement of financial assets. HKFRS 9 amended in 2010 includes the requirements for the classification and measurement of financial liabilities and for derecognition.

Key requirements of HKFRS 9 are described as follows:

- HKFRS 9 requires all recognised financial assets that are within the scope of HKAS 39 *Financial Instruments: Recognition and Measurement* to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent reporting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

- The most significant effect of HKFRS 9 regarding the classification and measurement of financial liabilities relates to the presentation of changes in the fair value of a financial liability (designated as at fair value through profit or loss) attributable to changes in the credit risk of that liability. Specifically, under HKFRS 9, for financial liabilities that are designated as at fair value through profit or loss, 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 presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss.

HKFRS 9, as amended, is effective for annual periods beginning on or after 1 January 2015, with earlier application permitted.

Based on the Group's financial assets and financial liabilities as at 31 December 2011, the Group anticipates that the application of HKFRS 9 will have no material impact on amounts reported in respect of the Group's financial assets and financial liabilities.

The Group is in the process of making an assessment of the impact of other new and revised HKFRSs.

3. SIGNIFICANT ACCOUNTING POLICIES

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

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

Basis of consolidation

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

All inter-company transactions, balances, income and expenses are eliminated on consolidation.

Investments in subsidiaries

Investments in subsidiaries are included in the Company's statement of financial position at cost, less any identified impairment loss.

Interests in associates

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments

Financial assets and financial liabilities are recognised in the statement of financial position when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss ("**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 or financial liabilities at FVTPL are recognised immediately in profit or loss.

Financial assets

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

Effective interest method

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

Interest income is recognised on an effective interest basis for debt instruments.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (continued)

Financial assets (continued)

Financial assets at FVTPL

Financial assets at FVTPL represent those designated at FVTPL upon initial recognition.

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

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and HKAS 39 permits the entire combined contract (asset or liability) to be designated as at FVTPL.

At 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 or interest earned on the financial assets.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At the end of the reporting period subsequent to initial recognition, loans and receivables (other receivables, bank balances and amounts due from subsidiaries and associates) are carried at amortised cost using the effective interest method, less any impairment (see accounting policy on impairment of financial assets below).

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated or not classified as financial assets at FVTPL, loans and receivables or held-to-maturity investments.

At the end of the reporting period subsequent to initial recognition, available-for-sale financial assets are measured at fair value. Changes in fair value are recognised in other comprehensive income and accumulated under the heading of available-for-sale financial assets reserve, until the financial asset is disposed of or is determined to be impaired, at which time, the cumulative gain or loss previously accumulated in available-for-sale financial assets reserve is reclassified to profit or loss (see accounting policy on impairment of financial assets below).

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (continued)

Financial assets (continued)

Impairment of financial assets

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

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

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation; or
- the disappearance of an active market for that financial asset because of financial difficulties.

For financial assets carried at amortised cost, an impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

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

For financial assets measured at amortised cost, 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 losses were 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.

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

When an available-for-sale financial asset is considered to be impaired, cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss in the period in which the impairment takes place.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (continued)

Financial liabilities and equity instruments

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

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The Group's financial liabilities are generally classified into financial liabilities designated as at FVTPL and other financial liabilities. The accounting policies adopted in respect of financial liabilities and equity instruments are set out below.

Effective interest method

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

Interest expense is recognised on an effective interest basis.

Financial liabilities

Financial liabilities at FVTPL

A financial liability other than a financial liability held for trading may be designated as at FVTPL upon initial recognition if:

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

Financial liabilities at FVTPL are stated 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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (continued)

Financial liabilities and equity instruments (continued)

Other financial liabilities

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

Equity instruments

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

Derecognition

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

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

Revenue recognition

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

Dividend income from investments including financial assets at FVTPL is recognised when the shareholders' rights to receive payment have been established.

Foreign currencies

In preparing the financial statements of each individual entity of the Group, transactions in currencies other than the entity's functional currency (foreign currencies) are recognised at the rates of exchange prevailing at 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 at 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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Foreign currencies (continued)

Exchange differences on monetary items are recognised in profit or loss in the period in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's operations are translated into the presentation currency of the Group (i.e. United States Dollars) using exchange rates prevailing at the end of the reporting period. Income and expense items are translated at the average exchange rates for the period. Exchange differences arising, if any, are recognised in other comprehensive income 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 profit as reported in the consolidated statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes 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 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 recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Taxation (continued)

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 profit 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 is recognised in profit or loss, except when it relates to items that are recognised in other comprehensive income or directly in equity, in which case the deferred tax is also recognised in other comprehensive income or directly in equity respectively.

4. CAPITAL RISK MANAGEMENT

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

5. FINANCIAL INSTRUMENTS

Categories of financial instruments

	THE GROUP		THE COMPANY	
	2011	2010	**2011**	2010
	US$	*US$*	***US$***	*US$*
Financial assets				
Designated as at FVTPL	**435,127,327**	515,349,315	**40,604,327**	53,223,154
Available-for-sale	**726,698**	722,004	**–**	–
Loans and receivables (including cash and cash equivalents)	**97,414,688**	63,559,435	**260,266,867**	223,989,741
Financial liabilities				
Amortised cost	**3,023,624**	21,345,692	**7,552,818**	26,093,746
Designated as at FVTPL	**1,268,441**	661,699	**1,268,441**	661,699

Financial risk management objective and policies

The Group's major financial instruments include financial assets at FVTPL, available-for-sale financial assets, other receivables, bank balances and cash, other payables and financial liabilities at FVTPL. The Company's major financial instruments are the same as the Group, except it further includes amounts due from/to subsidiaries. Details of these financial instruments are disclosed in respective notes. These risks include market risk (including currency risk, interest rate risk and price risk), credit risk and liquidity risk. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The Group manages and monitors these exposures to ensure appropriate measures are implemented in a timely and effective manner.

Market risk

Currency risk

The Group and the Company undertake certain transactions which expose the Group to foreign currency risk. The related balances include amounts due from/to subsidiaries, other receivables, bank balances and cash and other payables, denominated in a currency other than the functional currency, and so exposures to exchange rate fluctuations arise.

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

5. FINANCIAL INSTRUMENTS (CONTINUED)

Market risk (continued)

Currency risk (continued)

The carrying amounts of the Group's and the Company'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:

	THE GROUP	
	2011	2010
	US$	*US$*
Monetary assets		
United States Dollar	**424,534**	3,513,310
Hong Kong Dollar	**2,586,719**	295,057
Monetary liabilities		
United States Dollar	**3,640,584**	21,055,303
Hong Kong Dollar	**338,349**	252,014

	THE COMPANY	
	2011	2010
	US$	*US$*
Monetary assets		
United States Dollar	**38,072,887**	44,175,613
Hong Kong Dollar	**2,502,404**	276,093
Monetary liabilities		
United States Dollar	**8,821,259**	26,755,445

5. FINANCIAL INSTRUMENTS (CONTINUED)

Market risk (continued)

Currency risk (continued)

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 loss for the year would decrease/increase by US$161,000 (2010: decrease/increase by US$879,000).

For the currency risk of the Company, if the exchange rate of RMB against USD had been increased/decreased by 5%, the Company's profit for the year would decrease/increase by US$1,466,000 (2010: decrease/increase by US$873,000).

For the Group and the Company, no sensitivity analysis has been prepared between RMB and HKD as the amount involved is not significant.

Interest rate risk

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

The Group is also exposed to interest rate risk on certain debt securities (see note 17). The Group manages such interest rate exposure through the Investment Manager, the Group considers that there is no significant impact on the results of the Group arising from the volatility of interest rates.

Interest rate sensitivity

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

Price risk

The Group and the Company are exposed to price risk through its investments in note 16 and financial liabilities in note 23 which are designated as at FVTPL.

5. FINANCIAL INSTRUMENTS (CONTINUED)

Market risk (continued)

Price risk (continued)

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% (2010: 20%) higher/lower, the Group's loss for the year would decrease/increase by US$31,104,000 (2010: US$44,428,000). This is mainly attributable to the changes in fair values of the listed investments held by the Group.

If the fair value of the investments other than listed equity securities had been 20% (2010: 20%) higher/lower, the Group's loss for the year would decrease/increase by US$33,398,000 (2010: US$31,567,000). This is mainly attributable to the changes in fair values of the investments held by the Group.

Credit risk

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

The Group's and the Company's financial assets include debt and equity investments, other receivables and bank balances and cash, and the Company also has financial assets on amounts due from subsidiaries.

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

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

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

The Group's financial liabilities represent other payables (management fee accruals and business tax accruals) and financial liabilities at FVTPL related to sub-participation agreements. The Company's financial liabilities represent other payables (management fee accruals), financial liabilities at FVTPL and amounts due to subsidiaries. Apart from financial liabilities at FVTPL which is repayable upon realisation of the corresponding investments, they are all interest free and repayable on demand. In the opinion of the management, no maturity profile is required to be prepared by virtue of its nature.

Fair value of financial instruments

The fair value of financial assets designated at FVTPL are determined with reference to quoted market bid prices and generally accepted pricing models.

The Directors consider that the carrying amount of financial assets and financial liabilities at amortised cost recorded in the consolidated statement of financial position and the Company's statement of financial position approximates their fair values.

Fair value measurements recognised in the consolidated statement of financial position

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Level 1 to 3 based on the degree to which the fair value is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

5. FINANCIAL INSTRUMENTS (CONTINUED)

Fair value of financial instruments (continued)

Fair value measurements recognised in the consolidated statement of financial position (continued)

	Level 1 *US$*	**Level 2** *US$*	**Level 3** *US$*	**2011 Total** *US$*
Financial assets at FVTPL				
Financial assets designated at FVTPL	**215,401,697**	**–**	**219,725,630**	**435,127,327**
Available-for-sale financial assets				
Bonds	**–**	**–**	**726,698**	**726,698**
Total	**215,401,697**	**–**	**220,452,328**	**435,854,025**
Financial liabilities at FVTPL				
Financial liabilities designated at FVTPL	**–**	**–**	**1,268,441**	**1,268,441**
Total	**–**	**–**	**1,268,441**	**1,268,441**

	Level 1 *US$*	Level 2 *US$*	Level 3 *US$*	2010 Total *US$*
Financial assets at FVTPL				
Financial assets designated at FVTPL	307,667,689	–	207,681,626	515,349,315
Available-for-sale financial assets				
Bonds	–	–	722,004	722,004
Total	307,667,689	–	208,403,630	516,071,319
Financial liabilities at FVTPL				
Financial liabilities designated at FVTPL	–	–	661,699	661,699
Total	–	–	661,699	661,699

5. FINANCIAL INSTRUMENTS (CONTINUED)

Fair value of financial instruments (continued)

Reconciliation of Level 3 fair value measurements of financial assets:

	Designated at FVTPL *US$*	**Available-for-sale** *US$*	**2011 Total** *US$*
Opening balance	**207,681,626**	**722,004**	**208,403,630**
Gains or losses recognised in :			
Profit or loss - realised	**3,403,632**	**–**	**3,403,632**
Profit or loss - unrealised	**(13,691,743)**	**–**	**(13,691,743)**
Other comprehensive income	**–**	**4,694**	**4,694**
Exchange differences arising on translation	**8,858,210**	**–**	**8,858,210**
Purchases	**18,561,858**	**–**	**18,561,858**
Disposals	**(5,087,953)**	**–**	**(5,087,953)**
Closing balance	**219,725,630**	**726,698**	**220,452,328**

	Designated at FVTPL US$	Available-for-sale US$	2010 Total US$
Opening balance	117,078,997	698,338	117,777,335
Gains or losses recognised in :			
Profit or loss - realised	10,726,208	–	10,726,208
Profit or loss - unrealised	19,926,893	–	19,926,893
Other comprehensive income	–	23,666	23,666
Exchange differences arising on translation	3,212,532	–	3,212,532
Purchases	70,797,739	–	70,797,739
Disposals	(14,060,743)	–	(14,060,743)
Closing balance	207,681,626	722,004	208,403,630

5. FINANCIAL INSTRUMENTS (CONTINUED)

Fair value of financial instruments (continued)

Reconciliation of Level 3 fair value measurements of financial liabilities:

	2011	2010
	US$	*US$*
Designated at FVTPL		
Opening balance	**661,699**	421,986
Additions	**508,706**	469,314
Change in fair value	**98,036**	(229,601)
Closing balance	**1,268,441**	661,699

Significant assumptions used in determining Level 3 fair value of financial assets

The consolidated financial statements include holdings in unlisted equities which are measured at fair value (note 16). Fair value is estimated using generally accepted pricing models, which included some assumptions that are not supportable by observable market rates. In determining the fair value, certain unobservable inputs (such as growth rate and market multiples) and a risk adjusted discount factor were used. The total amount of the loss on change in fair value estimated using a valuation technique that was recognised in profit or loss during the year was US$13,691,743 (2010: gain of US$19,926,893), which is related to financial assets held at the end of the reporting period.

6. INVESTMENT INCOME

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

	THE GROUP	
	2011	2010
	US$	*US$*
Interest income on		
Bank deposits	**2,044,796**	894,755
Available-for-sale financial assets - listed	**40,600**	40,600
	2,085,396	935,355
Dividend income on financial assets designated as at FVTPL		
Listed investments	**5,665,388**	7,083,323
Unlisted investments	**9,579,470**	5,070,158
	15,244,858	12,153,481
Total	**17,330,254**	13,088,836

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

	THE GROUP	
	2011	2010
	US$	*US$*
Available-for-sale financial assets	**40,600**	40,600
Loans and receivables (including bank balances and cash)	**2,044,796**	894,755
Total interest income for financial assets not designated as at FVTPL	**2,085,396**	935,355
Investment income earned on financial assets designated as at FVTPL	**15,244,858**	12,153,481
Total	**17,330,254**	13,088,836

7. SEGMENTAL INFORMATION

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

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

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

(c) Manufacturing: investees engaged in manufacturing of products activities.

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

(e) Others: investees engaged in investments related to energy and resources, real estate activities and other types of investing activities.

Information regarding the above segments is reported below:

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

For the year ended 31 December 2011

	Financial services *US$*	Culture and media *US$*	Manufacturing *US$*	Information technology *US$*	Others *US$*	Total *US$*
Change in investment value	**(31,467,745)**	**9,302,832**	**(1,923,863)**	**2,028,429**	**2,372,468**	**(19,687,879)**
Dividend income on financial assets designated as at FVTPL	**12,115,797**	**3,121,613**	**–**	**–**	**7,448**	**15,244,858**
Interest income from available-for-sale financial assets	**–**	**–**	**–**	**–**	**40,600**	**40,600**
Other gains and losses	**7,518**	**53,627**	**309,007**	**–**	**–**	**370,152**
Segment (loss) profit	**(19,344,430)**	**12,478,072**	**(1,614,856)**	**2,028,429**	**2,420,516**	**(4,032,269)**
Unallocated:						
– Administrative expenses						**(15,762,196)**
– Interest income on bank deposits						**2,044,796**
– Other gains and losses						**129,518**
Loss before taxation						**(17,620,151)**

7. SEGMENTAL INFORMATION (CONTINUED)

For the year ended 31 December 2010

	Financial services *US$*	Culture and media *US$*	Manufacturing *US$*	Information technology *US$*	Others *US$*	Total *US$*
Change in investment value	(126,213,758)	(14,276,283)	4,105,884	–	1,066,677	(135,317,480)
Dividend income on financial assets designated as at FVTPL	9,481,481	2,418,962	249,631	–	3,407	12,153,481
Interest income from available-for-sale financial assets	–	–	–	–	40,600	40,600
Other gains and losses	23,617	155,578	–	–	–	179,195
Segment (loss) profit	(116,708,660)	(11,701,743)	4,355,515	–	1,110,684	(122,944,204)
Unallocated:						
– Administrative expenses						(26,733,102)
– Interest income on bank deposits						894,755
Loss before taxation						(148,782,551)

Segment profit (loss) represents the change in value of investments (including change in fair value of financial assets at FVTPL and share of results of associates) and the corresponding dividend income, interest income and other gains and losses earned by each segment without allocation of central administrative expenses, fees to the Investment Manager, interest income on bank deposits and certain other gains and losses. This is the measure reported to the executive management for the purpose of resources allocation and performance assessment. No separate segment revenue (i.e. investment income) is disclosed as it had been presented in the computation of segment profit (loss). The accounting policies of the reportable and operating segments are the same as the Group's accounting policies described in note 3.

7. SEGMENTAL INFORMATION (CONTINUED)

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

	2011	2010
	US$	*US$*
Segment assets		
Financial services	**298,012,911**	421,070,077
Culture and media	**112,348,567**	87,427,019
Manufacturing	**28,769,052**	27,027,082
Information technology	**16,600,803**	–
Others	**3,013,566**	2,929,270
Total segment assets	**458,744,899**	538,453,448
Unallocated	**97,436,905**	63,581,767
Consolidated assets	**556,181,804**	602,035,215
Segment liabilities		
Financial services	**5,214**	5,295
Culture and media	**833,748**	522,487
Manufacturing	**115,342**	90,772
Information technology	**269,106**	–
Others	**45,031**	43,145
Total segment liabilities	**1,268,441**	661,699
Unallocated	**78,002,847**	113,967,275
Consolidated liabilities	**79,271,288**	114,628,974

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

All assets are allocated to reportable segments other than other receivables, bank balances and cash, and all liabilities are allocated to reportable segments other than 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, hence no geographical information in relation to the investing activities are presented.

8. LOSS BEFORE TAXATION

	THE GROUP	
	2011	2010
	US$	*US$*
Loss before taxation has been arrived at after charging (crediting):		
Auditor's remuneration	**175,060**	93,875
Net foreign exchange (gains) losses	**(129,509)**	556,553
Investment Manager's management fee	**9,869,331**	11,519,577
Directors' fees	**107,772**	103,080
Share of tax of associates (included in share of results of associates)	**69,310**	309,729

9. DIRECTORS' EMOLUMENTS

The Directors' fees paid or payable to each of the 13 (2010: 12) Directors were as follows:

	THE GROUP	
	2011	2010
	US$	*US$*
Executive Directors:		
Mr. LI Yinquan	**–**	–
Mr. HONG Xiaoyuan	**–**	–
Mr. CHU Lap Lik, Victor	**–**	–
Ms. ZHOU Linda Lei	**–**	–
Mr. TSE Yue Kit	**–**	–
Ms. KAN Ka Yee, Elizabeth *(Alternate Director)*	**–**	–
	–	–

9. DIRECTORS' EMOLUMENTS (CONTINUED)

	THE GROUP	
	2011	2010
	US$	*US$*
Non-executive Directors:		
Mr. KE Shifeng	**20,528**	20,616
Mr. WANG Qi#	**Not applicable**	–
	20,528	20,616
Independent Non-executive Directors:		
Mr. LI Kai Cheong, Samson	**25,660**	20,616
Mr. LIU Baojie	**20,528**	20,616
Mr. XIE Tao*	**3,464**	Not applicable
Mr. ZHU Li*	**3,464**	Not applicable
Mr. KUT Ying Hay##	**17,064**	20,616
Mr. WANG Jincheng##	**17,064**	20,616
	87,244	82,464
Total	**107,772**	103,080

* The Directors were appointed during the year 2011.
\# The Director resigned during the year 2010.
\#\# The Directors resigned during the year 2011.

10. EMPLOYEES' EMOLUMENTS

The seven (2010: five) highest paid individuals in the Group were all Directors of the Company and details of their emoluments are included in note 9 above.

11. TAXATION

The tax (charge) credit for the year comprises:

	THE GROUP	
	2011	2010
	US$	*US$*
The Company and its subsidiaries		
Current tax:		
PRC Enterprise Income Tax	**(26,042,014)**	(35,714,392)
Deferred taxation (note 24)		
Current year	**23,834,535**	72,437,448
Total	**(2,207,479)**	36,723,056

Hong Kong Profits Tax is calculated at 16.5% (2010: 16.5%) on the estimated assessable profits for the years. PRC Enterprise Income Tax in the PRC is calculated at the rates prevailing in the relevant regions.

The PRC promulgated the Law of the PRC on Enterprise Income Tax (the "**Tax Law**") by Order No. 63 of the President of the PRC on 16 March 2007. The State Council of the PRC issued Implementation Regulations of the Tax Law and the Notification of the State Council on Carrying out the Transitional Preferential Policies concerning Enterprise Income Tax (Guo Fa [2007] No. 39) on 6 December 2007 and 26 December 2007 respectively. Accordingly, the applicable Enterprise Income Tax rate for a PRC subsidiary of the Company in 2011 is 24% (2010: 22%) and such tax rate will be increased to 25% in 2012. Other PRC incorporated entities which were incorporated after 15 March 2007, are subject to 25% tax rate for Enterprise Income Tax with effect from 1 January 2008. The applicable PRC tax rate for the Company as non-resident is 10%.

11. TAXATION (CONTINUED)

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

	2011 **US$**	2010 US$
Loss before taxation	**(17,620,151)**	(148,782,551)
Share of results of associates	**(58,112)**	(2,203,129)
Gain on deemed disposal of associate	**–**	(2,523,001)
Loss before taxation attributable to the Company and its subsidiaries	**(17,678,263)**	(153,508,681)
Tax at the domestic income tax rate of 24% (2010: 22%) (Note 1)	**4,242,783**	33,771,908
Tax effect of expenses not deductible for tax purpose	**(1,781,196)**	(5,464,025)
Tax effect of income not taxable for tax purpose	**4,390,134**	4,170,419
Tax effect of tax losses/deductible temporary differences not recognised	**(2,267)**	(1,891)
Effect of different tax rates of the Company operating in other regions in the PRC	**(1,830,106)**	1,691,239
Adjustment on deferred tax on disposal of financial assets at FVTPL	**771,454**	5,133,090
Effect of different tax rate applied for deferred tax liability (recognised) reversed for the year	**(3,853,780)**	3,403,700
Others	**–**	24,813
Dividend withholding taxation in the PRC	**(4,144,501)**	(6,006,197)
Taxation	**(2,207,479)**	36,723,056

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

12. DIVIDENDS

Subsequent to the end of the reporting period, a final dividend of US$0.04 per share (2010: US$0.04) and a special dividend of US$0.08 per share (2010: US$0.07), totalling US$0.12 per share (2010: US$0.11) in respect of the year ended 31 December 2011 have been proposed by the Directors and are subject to approval by the shareholders at the forthcoming annual general meeting.

A cash dividend of US$12,089,376 was paid and a total number of 2,353,436 scrip shares were allotted and issued at the price of HK$14.34 on 29 July 2011 by the Company for the year ended 31 December 2010. A cash dividend of US$14,914,560 was paid and no issuances of scrip shares were made during 2010.

13. BASIC LOSS PER SHARE

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

	THE GROUP	
	2011	2010
Loss for the purpose of basic loss per share (US$)	**(19,827,630)**	(112,059,495)
Weighted average of number of ordinary shares for the purpose of basic loss per share	**150,126,198**	149,145,600
Basic loss per share (US$)	**(0.132)**	(0.751)

All 2,353,436 scrip shares allotted during the year have been issued before the year end as described in note 12 above. No diluted earnings (loss) per share were noted at both years as there were no dilutive potential shares outstanding during the period.

14. INVESTMENTS IN SUBSIDIARIES

	THE COMPANY	
	2011	2010
	US$	*US$*
Unlisted shares, at cost	**10,000,007**	10,000,007
Deemed capital contribution through interest-free loans	**16,050,000**	11,160,000
Total	**26,050,007**	21,160,007

Particulars of the Company's principal subsidiaries at 31 December 2011 are set out in note 32.

15. INTERESTS IN ASSOCIATES

	THE GROUP	
	2011	2010
	US$	*US$*
Cost of unlisted investments in associates	**16,452,455**	16,452,455
Share of post-acquisition results, net of dividends received	**2,692,819**	2,325,700
Share of exchange reserve	**3,719,859**	3,598,255
	22,865,133	22,376,410
Amounts due from associates	**6,511,796**	6,551,714
Allowance on amounts due from associates	**(6,486,055)**	(6,545,995)
	25,741	5,719
Total	**22,890,874**	22,382,129

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

As at 31 December 2011 and 2010, the Group had investments in the following associates:

Name of company	Place of incorporation/ registration and operation	Class of share held	Principal activities	2011 Proportion of nominal value of issued capital/ registered capital held by the Group	2010 Proportion of nominal value of issued capital/ registered capital held by the Group
Daily On Property Limited	HK/PRC	Ordinary	Property development	**22%**	22%
Hansen Enterprises Limited	BVI/PRC	Ordinary	Property investment	**35%**	35%
Shandong Jinbao Electronics Co., Ltd.	PRC/PRC	Registered capital	Manufacturing electronics products	**25.91%**	25.91%

In December 2010, Shandong Jinbao Electronics Co., Ltd. completed a private placement to investors and raised RMB143 million. Following this equity offer, the equity interest held by the Group decreased from 30% to 25.91%, and the Group recognised the gain on deemed disposal of US$2,523,001 in 2010.

15. INTERESTS IN ASSOCIATES (CONTINUED)

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

	2011 **US$**	2010 US$
Total assets	**471,106,571**	463,642,252
Total liabilities	**(379,429,044)**	(370,867,048)
Net assets	**91,677,527**	92,775,204
Group's share of net assets of associates	**22,865,133**	22,376,410
Turnover	**348,902,963**	347,202,518
Profit for the year	**2,104,736**	12,334,469
Group's share of results of associates for the year (excluding unrecognised share of profits of associates having accumulated losses in prior year)	**58,112**	2,203,129

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

	2011 **US$**	2010 US$
Unrecognised share of profits for the year	**446,259**	413,873
Accumulated unrecognised share of losses of associates	**(1,801,378)**	(2,247,637)

16. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	THE GROUP	
	2011	2010
	US$	*US$*
Equity and debt securities:		
– listed equities in PRC (Note a)	**212,612,412**	307,667,689
– listed equity in USA (Note b)	**2,789,285**	–
– unlisted equities (Note c)	**194,142,093**	182,491,626
– unlisted preferred equity (Note c)	**24,790,000**	25,190,000
– convertible bond (Note c)	**793,537**	–
Total	**435,127,327**	515,349,315
Analysed to reporting purposes as		
Current assets	**215,401,697**	307,667,689
Non-current assets	**219,725,630**	207,681,626
Total	**435,127,327**	515,349,315

The Group's sales proceeds from disposals of investments in 2011 were US$110,234,802 (2010: US$158,763,721).

	THE COMPANY	
	2011	2010
	US$	*US$*
Equity securities:		
– unlisted (Note c)	**40,604,327**	53,223,154

Notes:

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

(b) The listed equity security represents the Group's interest in Renren Inc. The fair value of the above listed security is determined based on the quoted market closing price available on the relevant exchange.

(c) For unlisted investments with no recent transactions noted, their fair values were arrived at on the basis of valuations carried out by an independent valuer not connected with the Group by reference to the appropriate valuation models. For an unlisted investment with recent transaction noted, fair value was arrived at by reference to prices of third party transactions prior to the year end (note 33).

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

THE GROUP

Particulars of the Group's investment portfolio which exceed 10% of the assets of the Group at 31 December 2011 disclosed pursuant to Section 129(2) of the Hong Kong Companies Ordinance are as follows:

Name of company	Place of registration	Class of share capital	2011 Percentage of equity held by the Group	2010 Percentage of equity held by the Group
China Merchants Bank Co., Ltd.	PRC	A shares	**0.31%**	0.31%
Industrial Bank Co., Ltd.	PRC	A shares	**0.41%**	0.83%
China Credit Trust Co., Ltd.	PRC	Paid up capital	**6.9369%**	6.9369%

THE COMPANY

Particulars of the Company's investment portfolio which exceeds 10% of the assets of the Company at 31 December 2011 disclosed pursuant to Section 129(2) of the Hong Kong Companies Ordinance are as follows:

Name of company	Place of registration	Class of share capital	2011 Percentage of equity held by the Company	2010 Percentage of equity held by the Company
China Credit Trust Co., Ltd.	PRC	Paid up capital	**3.3297%**	3.3297 %

17. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	THE GROUP	
	2011	2010
	US$	*US$*
Quoted debt securities – available-for-sale (Note)	**726,698**	722,004

Note: The maturity of the debt securities is over one year but less than five years and the effective interest rate is 5.80% per annum.

18. AMOUNTS DUE FROM (TO) SUBSIDIARIES

	THE COMPANY	
	2011	2010
	US$	*US$*
Amounts due from subsidiaries	**268,245,384**	231,105,276
Less: Allowance on amounts due from subsidiaries	**(10,882,392)**	(10,882,392)
Total	**257,362,992**	220,222,884
Analysis of amounts due from subsidiaries		
Current	**190,409,417**	152,537,587
Non-current	**66,953,575**	67,685,297
Total	**257,362,992**	220,222,884
Amounts due to subsidiaries	**4,842,326**	4,786,428

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

	THE COMPANY	
	2011	2010
	US$	*US$*
Allowance on amounts due from subsidiaries at 1 January and 31 December	**10,882,392**	10,882,392

The amounts due from subsidiaries are impaired because the carrying amounts are larger than the present value of discounted cash flows of the impaired subsidiaries. The other amounts due from subsidiaries which have good quality as they have the repayment ability to settle the outstanding amounts.

19. OTHER RECEIVABLES

	THE GROUP	
	2011	2010
	US$	*US$*
Consideration receivable on disposal of unlisted investments	**63,102**	–
Dividend receivable	**224,668**	224,668
Interest receivable	**1,275,398**	45,434
Other receivables	**49,014**	28,930
Total	**1,612,182**	299,032

	THE COMPANY	
	2011	2010
	US$	*US$*
Interest receivable	**2,038**	631
Other receivables	**22,217**	22,332
Total	**24,255**	22,963

20. BANK BALANCES AND CASH

THE GROUP AND THE COMPANY

Bank balances comprise short-term bank deposits at fixed prevailing market interest rates. The bank balances and cash of the Group include an amount of US$92,885,064 (2010: US$59,461,778) which is denominated in RMB.

21. OTHER PAYABLES

THE GROUP AND THE COMPANY

Other payables mainly comprise amount due to China Merchants China Investment Management Limited ("**Investment Manager**") mainly for management fee as disclosed in note 31 and business tax payable.

22. TAXATION PAYABLE

THE GROUP

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

23. FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

The financial liabilities designated as at FVTPL as at the year ended 31 December 2011 were related to the sub-participation agreements (the "**Sub-participation Agreements**") entered into between the Company and the participants in respect of the investment 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.), 廣州珠江數碼集團有限公司 (Guangzhou Digital Media Group Ltd.), 華人文化(天津)投資管理有限公司 (China Media (Tianjin) Investment Management Co., Ltd.), 深圳市吉陽自動化科技有限公司 (Shenzhen Geesun Automation 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)), 江蘇華爾光電材料股份有限公司 (Jiangsu Huaer Optoelectronic Material Co., Ltd.), 上海第一財經傳媒有限公司 (China Business Network), 西安金源電氣股份有限公司 (Xi'an Jinpower Electrical Co., Ltd.), 人人有限公司 (Renren Inc.), 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.) and 天利半導體(深圳)有限公司 (Teralane Semiconductor (Shenzhen) Co., Ltd.) (collectively referred to as the "**Project Companies**"). As all above mentioned investments by the Group in the Project Companies are designated as financial assets at FVTPL and value of the Sub-participation Agreements are associated directly with these underlying investments, the Sub-participation Agreements are thus designated as financial liabilities at FVTPL.

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. 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.

24. DEFERRED TAXATION

THE GROUP

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

	THE GROUP	
	2011	2010
	US$	*US$*
Balance at 1 January	**74,094,298**	144,046,891
Credit to profit or loss for the year	**(23,834,535)**	(72,437,448)
Exchange differences	**2,693,337**	2,484,855
Balance at 31 December	**52,953,100**	74,094,298

At the end of the reporting period, the Group had deductible temporary differences and estimated unused tax losses available for offsetting against future taxable profits of US$5,941,043 (2010: US$7,021,416) and US$111,879 (2010: US$103,630) respectively. The losses may be carried forward indefinitely for Hong Kong Profits Tax.

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

24. DEFERRED TAXATION (CONTINUED)

THE COMPANY

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

	THE COMPANY	
	2011	2010
	US$	*US$*
Balance at 1 January	**3,792,442**	2,324,205
(Credit) Charge to profit or loss for the year	**(1,261,883)**	1,468,237
Balance at 31 December	**2,530,559**	3,792,442

At the end of the reporting period, the Company had nil deductible temporary differences (2010: Nil) and estimated unused tax losses of US$75,084 (2010: US$75,252) available for offsetting against future taxable profits. The losses may be carried forward indefinitely for Hong Kong Profits Tax.

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

25. SHARE CAPITAL

	Number of shares	**US$**
Ordinary shares of US$0.10 each		
Authorised:		
At 31 December 2010, 1 January and 31 December 2011	**300,000,000**	**30,000,000**
Issued and fully paid:		
At 1 January and 31 December 2010 and 1 January 2011	**149,145,600**	**14,914,560**
Issue of ordinary shares	**2,353,436**	**235,344**
At 31 December 2011	**151,499,036**	**15,149,904**

A total number of 2,353,436 ordinary shares of US$0.10 each were allotted and issued at the price of HK$14.34 on 29 July 2011 by the Company to satisfy the payment of the 2010 final and special dividends of US$4,316,640.

26. SHARE PREMIUM AND RESERVES

THE COMPANY

	Share premium	Accumulated (losses)/profit	Total
	US$	*US$*	*US$*
Balance at 1 January 2010	109,493,184	39,270,910	148,764,094
Profit for the year	–	113,336,349	113,336,349
2009 final and special dividends paid	–	(14,914,560)	(14,914,560)
Balance at 1 January 2011	**109,493,184**	**137,692,699**	**247,185,883**
Profit for the year	**–**	**61,738,033**	**61,738,033**
2010 final and special dividends paid			
– Cash	**–**	**(12,089,376)**	**(12,089,376)**
– Scrip alternative	**4,081,296**	**(4,316,640)**	**(235,344)**
Balance at 31 December 2011	**113,574,480**	**183,024,716**	**296,599,196**

27. NET ASSET VALUE PER SHARE

The calculation of the net asset value per share is based on the net assets of US$476,910,516 (2010: US$487,406,241) and 151,499,036 ordinary shares (2010: 149,145,600 ordinary shares) of US$0.10 each in issue.

28. OPERATING LEASE COMMITMENTS

At the end of the reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	2011	2010
	US$	*US$*
Within one year	**89,500**	3,176
In the second to fifth years inclusive	**333,100**	–
	422,600	3,176

Operating lease payments represent rentals payable by the Group for certain of its office properties. Leases and rentals are negotiated for a term of five years (2010: Three years).

29. CAPITAL COMMITMENTS

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

(a) On 29 April 2010, the Group entered into an agreement with, among others, China Media Creative Industry Private Equity (Shanghai) Centre (Limited Partnership) ("**China Media Investment**"), pursuant to which the Group agreed to make a cash injection of RMB200 million (equivalent to approximately US$31.21 million) in total by installments 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 2011, the Group has injected RMB46.26 million (equivalent to approximately US$6.81 million) into China Media Investment and classified the investment as a financial asset at FVTPL under non-current assets.

(b) On 14 June and 31 August 2011, the Group entered into a capital increase agreement and a supplemental capital increase agreement respectively in relation to Guangxi Hwagain Group Co., Ltd. ("**Hwagain**"), pursuant to which the Group agreed to make a cash injection of RMB119.99 million (equivalent to approximately US$19.04 million) into the capital of Hwagain in return for approximately 7.10% enlarged equity interest in Hwagain.

(c) On 29 August 2011, the Group entered into agreements in relation to NTong Technology Co., Ltd. ("**NTong**"), pursuant to which, among others, the Group agreed to subscribe to convertible bonds of RMB45 million (equivalent to approximately US$7.14 million) from NTong upon request of NTong.

30. EVENTS AFTER THE REPORTING PERIOD

(a) On 20 January 2012, the Group made a cash injection of RMB119.99 million into Hwagain, which is proportionate to its shareholding.

(b) On 17 February 2012, the Group made a further cash injection of RMB6.77 million (equivalent to approximately US$1.08 million) into China Media Investment, which is proportionate to its shareholding.

(c) On 9 March 2012, Xi'an Jinpower Electrical Co., Ltd. completed a private placement to investors and raised RMB45.84 million. Following this equity offer, the equity interest held by the Group decreased from 5.26% to 4.82%.

31. 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 and the Company have incurred the following related party transactions:

(a) The Company paid or accrued to the Investment Manager management fees totalling US$9,869,331 (2010: US$11,519,577). The fee is calculated based on a fixed percentage on the value of the Group's assets as stipulated in the Investment Management Agreement (Note 1).

The amount due to the Investment Manager included in other payables in the statements of financial position as at 31 December 2011 was US$2,342,683 (2010: US$20,911,642). Amount due to the Investment Manager is unsecured, interest free and is repayable on demand.

(b) Rental fees in respect of the office properties totalling US$8,324 (2010: US$9,527) were paid or payable to a wholly-owned subsidiary of a substantial shareholder who has significant influence over the Company. Since the shareholder of the Company has significant influence over the Company and has control over its subsidiary, the rental fees are considered to be related party transactions.

(c) Securities brokerage commission fees totalling US$41,015 (2010: US$70,714) were paid or payable to a subsidiary of a substantial shareholder who has significant influence over the Company. Since the shareholder of the Company has significant influence over the Company and has control over its subsidiary, the securities brokerage commission fees are considered to be related party transactions (Note 1).

(d) Pursuant to the Sub-participation Agreements, the financial liabilities of the Group with Mr. HONG Xiaoyuan, Ms. ZHOU Linda Lei and Mr. TSE Yue Kit, who are Directors of both the Company and the Investment Manager, were US$99,882, US$143,750 and US$15,228 respectively (2010: US$45,517, US$79,238 and US$7,163 respectively). Moreover, the financial liability of the Group with Mr. WU Huifeng, a Director of the Investment Manager, was US$115,899 (2010: US$58,402).

(e) A 10% equity interest in Morgan Stanley Huaxin Fund Management Co., Ltd. was sold to a wholly-owned subsidiary of a substantial shareholder who has significant influence over the Company for a consideration of RMB33 million (equivalent to approximately US$5.03 million). Since the shareholder of the Company has significant influence over the Company and has control over its subsidiary, this transaction is considered to be a related party transaction (Note 1).

(f) Key management compensation is disclosed in note 9 to the financial statements.

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

32. PARTICULARS OF PRINCIPAL SUBSIDIARIES

Particulars of all principal subsidiaries at 31 December 2011 and 2010, which are all wholly-owned by the Company, are as follows:

Name	Place of incorporation/ registration and operation	Principal activities	Particulars of issued share capital
CMCDI Zhaoyuan Limited	BVI/PRC	Investment holding	1 share of US$1 each (Limited liability company)
China Merchants Industry Development (Shenzhen) Limited	PRC/PRC	Investment holding	Paid up capital of US$10,000,000 (Wholly owned foreign enterprise)
Everich Dynamic Investments Limited	BVI/PRC	Investment holding	1 share of US$1 each (Limited liability company)
Goshing Investment Limited	BVI/PRC	Investment holding	1 share of US$1 each (Limited liability company)
Leadman Investment Limited	HK/HK	Investment holding	1 share of HK$1 each (Limited liability company)
Main Star Investment Limited	HK/HK	Inactive	1 share of HK$1 each (Limited liability company)
Ryan Pacific Limited	BVI/PRC	Investment holding	1 share of US$1 each (Limited liability company)
Star Group Limited	HK/HK	Investment holding	2 ordinary shares of HK$1 each (Limited liability company)
Shenzhen Tian Zheng Investment Co., Ltd.	PRC/PRC	Investment holding	Paid up capital of RMB700,000,000 (Limited liability company)
Wheaton International Limited	BVI/PRC	Investment holding	1 share of US$1 each (Limited liability company)
Wisetech Limited	BVI/PRC	Investment holding	1 share of US$1 each (Limited liability company)

32. PARTICULARS OF PRINCIPAL SUBSIDIARIES (CONTINUED)

None of the subsidiaries had any debt securities subsisting at 31 December 2011 and 2010 or at any time during the year.

33. 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 and liabilities at FVTPL

As indicated in note 5, 16 and 23, the Group selects appropriate valuation techniques for financial instruments and liabilities not quoted in an active market. Valuation techniques commonly used by market practitioners are applied. The fair values of unlisted financial assets and liabilities designated at FVTPL are determined in accordance with generally accepted pricing models. The values assigned to the financial assets and liabilities are based upon available information and 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.

Income taxes

As at 31 December 2011, deferred tax liabilities of US$52,953,100 (2010: US$74,094,298) were recognised in relation to the investments of the Group (including financial assets designated at FVTPL and interests in associates). As mentioned in note 11, the applicable tax rate for the PRC subsidiary of the Company will increase from 24% in 2011 to 25% in 2012 and the deferred tax liabilities is being provided by estimating the applicable tax rate upon the disposal of investments. The realisability of the deferred tax liabilities mainly depends on the timing of disposal of the corresponding investments and the applicable tax rate at the time of disposal. In cases where the estimated timing of disposal is subsequently revised or the actual timing of disposal is different from the estimated timing, a material reversal of deferred tax liabilities may arise, which would be recognised in profit or loss for the period in which such a reversal takes place.

CONSOLIDATED RESULTS

	For the year ended 31 December				
	2007	2008	2009	2010	**2011**
	US$	*US$*	*US$*	*US$*	***US$***
Investment income	8,669,147	12,767,998	8,440,088	13,088,836	**17,330,254**
Profit (loss) from operations	806,236,284	(783,854,123)	366,023,519	(153,508,681)	**(17,678,263)**
Share of results of associates	3,422,469	(2,206,239)	1,556,589	2,203,129	**58,112**
Gain on deemed disposal of associate	–	–	–	2,523,001	**–**
Taxation	(214,990,720)	165,781,898	(103,974,484)	36,723,056	**(2,207,479)**
Profit (loss) attributable to equity holders of the Company	594,668,033	(620,278,464)	263,605,624	(112,059,495)	**(19,827,630)**

CONSOLIDATED ASSETS AND LIABILITIES

	As at 31 December				
	2007	2008	2009	2010	**2011**
	US$	*US$*	*US$*	*US$*	***US$***
Total assets	1,261,982,987	526,998,638	834,608,234	602,035,215	**556,181,804**
Total liabilities	(356,648,044)	(192,591,424)	(236,537,902)	(114,628,974)	**(79,271,288)**
Shareholders' funds	905,334,943	334,407,214	598,070,332	487,406,241	**476,910,516**