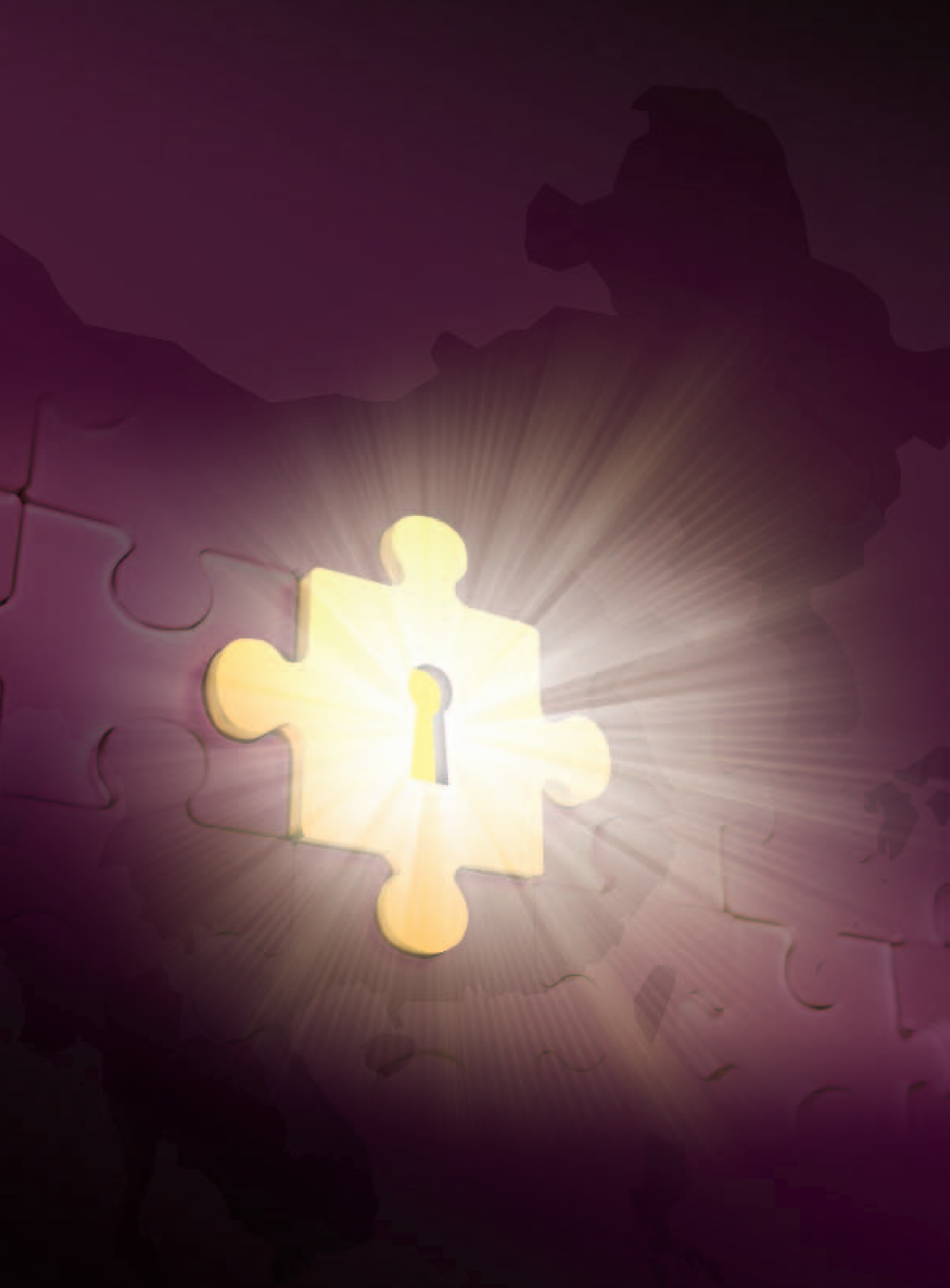
China Merchants China Direct Investments Limited

(Incorporated in Hong Kong with limited liability)

(Stock Code: 133)

ANNUAL REPORT 2013



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CORPORATE INFORMATION

BOARD OF DIRECTORS

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

Non-executive Director:
Mr. KE Shifeng

Independent Non-executive Directors:
Mr. LIU Baojie
Mr. XIE Tao
Mr. ZHU Li
Mr. TSANG Wah Kwong

INVESTMENT COMMITTEE

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

AUDIT COMMITTEE

Mr. TSANG Wah Kwong
Mr. XIE Tao
Mr. ZHU Li

NOMINATION COMMITTEE

Mr. LI Yinquan
Mr. XIE Tao
Mr. ZHU Li

COMPANY SECRETARY

Mr. LEUNG Chong Shun

INVESTMENT MANAGER

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

AUDITOR

Deloitte Touche Tohmatsu

LEGAL ADVISERS

Linklaters
Victor Chu & Co
Woo Kwan Lee & Lo

PRINCIPAL BANKERS

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

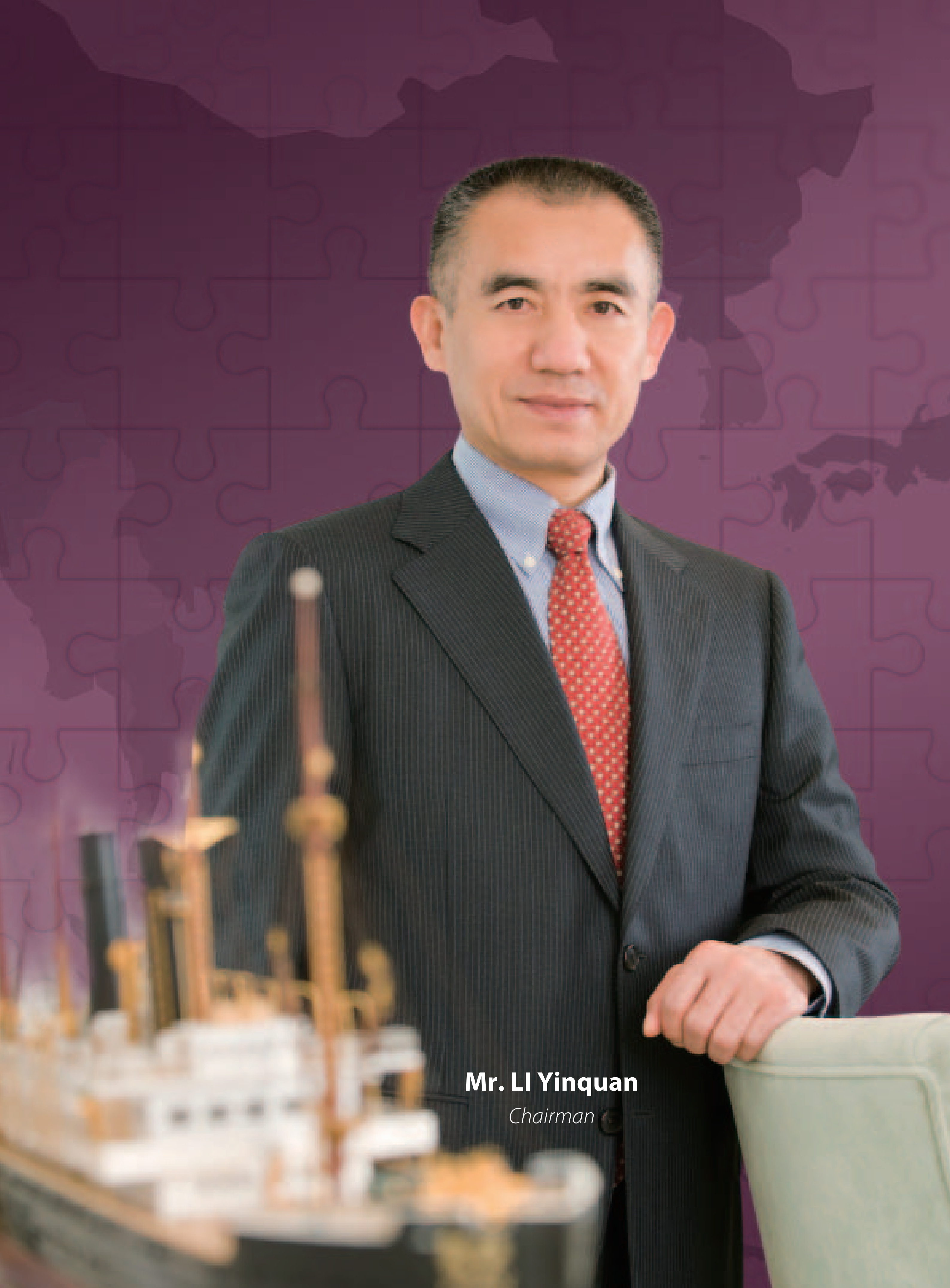
SHARE REGISTRAR

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

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

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

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



Mr. LI Yinquan

Chairman

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 2013, amounted to US$501.53 million (net of US$21.37 million for the repurchase of 7,917,171 shares), representing an increase of 4.83% compared to an amount of US$478.40 million in 2012. The net asset value per share was US$3.292, representing an increase of 8.97% compared to US$3.021 in 2012. The Group's audited consolidated profit after taxation for 2013 was US$34.84 million, representing an increase of 252.63% compared to an audited consolidated profit after taxation of US$9.88 million for the same period last year.

The Board recommended the payment of a final dividend of US$0.06 per share for the year 2013, representing an increase of US$0.01 per share. As there was no interim dividend payable, total dividends payable for the year 2013 was also US$0.06 per share, compared to US$0.05 per share last year, representing an increase of 20%.

In 2013, the global economy continued to recover slowly. Economic growth was strongest in developed economies, with slowing growth in emerging market economies. China continued to take steps to restrain the property market and to mitigate emerging risks related to local government investment and financing platforms, and this placed significant downward pressure on domestic economic growth. In 2013, the Central Government continued to place greater emphasis on steady economic development, as it took steps to implement certain reforms and increase openness, and as it adhered to thoughtful macroeconomic control measures designed to encourage stronger fundamentals and steady improvement in the Chinese economy. Despite slower growth in industrial production, some acceleration was seen in the profit growth of larger industrial enterprises. Growth in consumption slowed marginally, and growth in imports and exports remained sluggish, with a narrowing trade surplus. According to a preliminary report from the National Bureau of Statistics of China, China's gross domestic product (GDP) for 2013 recorded growth of 7.7% over 2012, only 0.1 percentage point slower than in the previous year. In addition, the consumer price index (CPI) saw a year-over-year increase of 2.6%, the same as in the previous year.

At the end of 2013, the Group's total holdings in direct investment projects amounted to US$572.64 million (US$509.57 million at the end of 2012), accounting for 95.34% of the Group's total asset value and representing an increase of US$63.07 million that was largely due to capital contributions made to new and existing projects, as well as to the overall increase in the fair value of investment projects. Meanwhile, cash on hand was US$27.25 million, accounting for 4.54% of total asset value.

In 2013, the Investment Manager actively sought new investment opportunities, with intensive due diligence and the screening of many prospects, and the Group invested in a new project – Nanjing Sanhome Pharmaceutical Co., Ltd. – in the amount of US$17.17 million. This project falls in the medical and pharmaceutical industry which helps to further optimise the Group's investment portfolio. Meanwhile, to better protect the interest of shareholders, the Group subscribed to 9.37 million A shares, allotted and issued from the share rights issuance of China Merchants Bank Co., Ltd. ("**CMB**") for a total consideration of US$14.10 million.

In 2013, the Investment Manager also took steps to explore opportunities for disposal of certain projects. During the year, the Group agreed to sell its entire 12.34% equity interest in NTong Technology Co., Ltd. to Unisplendour Corporation Limited ("**UNIS**", whose shares are listed on the Shenzhen Stock Exchange) for consideration of RMB86.36 million (equivalent to US$14.16 million), 25% of which will be settled in cash and 75% of which will be settled in new shares of UNIS. The transaction has yet to complete. In addition, the Group and the controlling shareholder of Xinjiang Chengtian Agriculture & Animal Husbandry Development Co., Ltd. ("**Chengtian**") have entered into an agreement, pursuant to which the Group shall sell its entire 6.25% equity interest in Chengtian to that shareholder for consideration of RMB35.79 million (equivalent to US$5.87 million). The consideration shall be receivable in installments, the last of which shall be settled on or before 31 August 2014.

The Company is actively seeking and reviewing different means to return cash to shareholders. As such, on 13 May 2013, the Company, for the first time, made a voluntary conditional cash offer to all eligible shareholders to repurchase up to 7,917,171 shares (representing 5.00% of the entire issued share capital of the Company as at 13 May 2013) at a price of HK$20.94 per share. This offer was approved by the shareholders at an extraordinary general meeting held on 7 June 2013 and became an unconditional cash offer. The offer was closed on 21 June 2013. According to the offer, the total number of shares repurchased and cancelled by the Company was 7,917,171 for a total consideration of HK$165.79 million (equivalent to US$21.37 million).

Looking ahead to 2014, we believe that challenges and opportunities coexist. In 2014, the global economy is likely to continue its post-crisis recovery and to demonstrate greater stability, although slowing growth in emerging market economies may persist. Domestic demand in China may continue to face downward pressure. The International Monetary Fund (IMF) expects GDP growth in China to be 7.5% in 2014. 2014 is also the first year for full implementation of structural reform under the mission of the Third Plenary Session of the 18th Central Committee of the Communist Party of China. The Central Government has proposed a general direction of "Maintaining Steady Growth", and it will continue to pursue an active fiscal policy and a steady monetary policy and will enhance the vision, relevance and synergy of its adjustments through continuous improvement in its approach. The Central Government will also seek to advance financial reforms, maintain financial stability, enhance the standard of financial services and management, support the changing mode of economic development and economic restructuring, achieve balance of payments, and facilitate sustainable and healthy economic and social development. These policies will create more opportunities as well as challenges for the Group in making 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, Nomination Committee and Investment Committee, and to the entire staff of the Investment Manager, for their many contributions and dedicated effort, and to the shareholders for their support. In the meantime, I will continue to give my best effort to lead the Group as we seek to create value for shareholders in the coming year.

Mr. LI Yinquan
Chairman

Hong Kong, 26 March 2014

Mr. HONG Xiaoyuan

Chairman of the Board of the Investment Manager

OVERALL PERFORMANCE

China Merchants China Direct Investments Limited and its subsidiaries (the "**Fund**") recorded a profit attributable to equity shareholders of US$34.84 million for the year ended 31 December 2013, compared to a profit attributable to equity shareholders of US$9.88 million for the same period last year, representing an increase of US$24.96 million or 252.63% – with the profit increase largely attributable to a rise in fair value of the financial assets designated at fair value through profit or loss (the "**Financial Assets**") and to an increase in investment income. As of 31 December 2013, the net assets of the Fund were US$501.53 million (net of US$21.37 million for the repurchase of 7,917,171 shares) (31 December 2012: US$478.40 million), with a net asset value per share of US$3.292 (31 December 2012: US$3.021).

The gain on change in fair value of the Financial Assets for the year was US$34.93 million, compared to a gain of US$23.64 million for the same period last year, representing an increase of 47.76%. The fair value of listed and unlisted direct investments recorded a loss of US$33.46 million and a gain of US$68.39 million, respectively. For details of fair value change in respect of each of the unlisted direct investments, please see the section titled "Review of Direct Investments" in this Investment Manager's Discussion and Analysis.

Total investment income for the year increased by 72.22% compared to the same period last year, to US$23.56 million (2012: US$13.68 million), due primarily to a significant increase in dividend income from investments.

MATERIAL ACQUISITIONS AND DISPOSALS OF INVESTMENTS

In 2013, the Fund sought out and evaluated many investment opportunities, and invested cash into the financial services and medical and pharmaceutical industry, respectively, during the year:

On 4 September 2013, and with the approval of shareholders of the Fund on 5 December 2011, the Fund subscribed to 9.37 million A shares of CMB, allotted and issued pursuant to the share rights issuance of CMB at the subscription price of RMB9.29 per share, for a total invested amount of US$14.10 million.

On 13 December 2013, the Fund invested US$17.17 million in Nanjing Sanhome Pharmaceutical Co., Ltd. ("**Sanhome Pharmaceutical**") for a 3.50% equity interest in the enlarged capital of Sanhome Pharmaceutical. Sanhome Pharmaceutical is principally engaged in the research and development, production and sale of pharmaceutical products. The company's main products include the Xiaoaiping Injection, Levornidazole and Sodium Chloride Injections, and Ornidazole and Sodium Chloride Injections.

In addition, the Fund did not complete the disposal of any unlisted investments in 2013.

The Fund was granted authorisation by its shareholders to dispose of its entire holding of A shares of both CMB and Industrial Bank Co., Ltd. ("**IBC**"). During the year, the Fund did not dispose of any A shares of CMB or IBC.

LIQUIDITY, FINANCIAL RESOURCES, GEARING AND CAPITAL COMMITMENTS

The Fund's cash on hand decreased by 52.84%, from US$57.78 million at the end of last year to US$27.25 million as of 31 December 2013 (accounting for 4.54% of the Fund's total asset value), due primarily to the capital injection into China Media Creative Industry Private Equity (Shanghai) Centre (Limited Partnership) ("**China Media Investment**") and Sanhome Pharmaceutical, as well as the subscription to A rights shares of CMB in the second half of the year, partly offset by the return of a portion of the Fund's capital investment in NBA China, L.P. in the amount of US$17.25 million, pursuant to the partnership agreement. In addition, the Fund also used cash for the Company's share repurchase in the second half of the year.

As of 31December 2013, the Fund had no outstanding bank loans (31 December 2012: Nil).

As of 31 December 2013, the Fund had capital commitments of US$9.71 million (31 December 2012: US$19.86 million) for an investment that was approved but not yet provided for in the financial statements – specifically, for future payments related to an investment in China Media Investment.

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 US dollar recorded an increase of approximately 3.00% in 2013, which had a positive impact on the Fund since it holds a considerable amount of assets denominated in RMB.

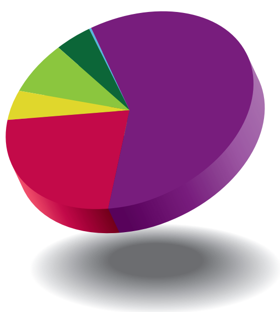
EMPLOYEES

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

THE PORTFOLIO

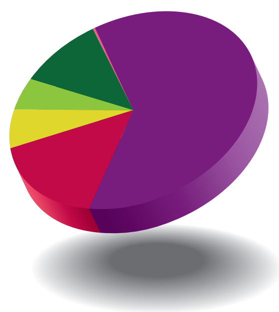
As of 31 December 2013, the Fund's total investments, which were all direct investments, amounted to US$572.64 million. The sector distribution of direct investments was US$348.16 million in financial services (representing 57.97% of the Fund's total assets), US$149.15 million in culture and media (24.82%), US$29.60 million in manufacturing (4.93%), and US$45.73 million in other ventures (including energy and resources, information technology, agriculture, medical and pharmaceutical and real estate) (7.62%). In addition, cash on hand was US$27.25 million, representing 4.54% of the Fund's total assets as of 31 December 2013.

TOTAL ASSETS DISTRIBUTION



AS OF 31 DECEMBER 2013

- **Financial Services Investment (2013 : 57.97% ; 2012 : 61.09%)**
- **Culture and Media Investment (2013 : 24.82% ; 2012 : 16.98%)**
- **Manufacturing Investment (2013 : 4.93% ; 2012 : 6.53%)**
- **Other Ventures (2013 : 7.62% ; 2012 : 5.00%)**
- **Cash (2013 : 4.54% ; 2012 : 10.15%)**
- **Others (2013 : 0.12% ; 2012 : 0.12%)**
- **Bonds (2013 : 0% ; 2012 : 0.13%)**



AS OF 31 DECEMBER 2012

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 2013:

Name of projects	Location of headquarters	Business nature	Listed (Stock Exchange)/ unlisted	Carrying value (US$ million)	Percentage of total assets %	Percentage of net assets %
Financial Services:						
#1. China Merchants Bank Co., Ltd.	Shenzhen, Guangdong	Banking	Shanghai Stock Exchange	113	18.78	22.49
#2. Industrial Bank Co., Ltd.	Fuzhou, Fujian	Banking	Shanghai Stock Exchange	111	18.52	22.17
#3. China Credit Trust Co., Ltd.	Beijing	Trust management	Unlisted	123	20.53	24.59
4. China Media (Tianjin) Investment Management Co., Ltd.	Tianjin	Fund management	Unlisted	1	0.14	0.17
		Sub-total:		**348**	**57.97**	**69.42**
Culture and Media:						
#5. China Media Creative Industry Private Equity (Shanghai) Centre (Limited Partnership)	Shanghai	Media investment	Unlisted	20	3.31	3.97
6. NBA China, L.P.	Beijing	Sports marketing	Unlisted	11	1.84	2.21
7. Unibank Media Group Inc.	Beijing	Indoor media	Unlisted	4	0.72	0.87
#8. Guangzhou Digital Media Group Ltd.	Guangzhou, Guangdong	Cable television & broadband access	Unlisted	58	9.64	11.55
#9. China Business Network	Shanghai	Provision of financial information service	Unlisted	11	1.85	2.22
#10. Esurfing Media Co., Ltd.	Shanghai	Mobile & online videos platform	Unlisted	45	7.46	8.93
		Sub-total:		**149**	**24.82**	**29.75**

Name of projects	Location of headquarters	Business nature	Listed (Stock Exchange)/ unlisted	Carrying value (US$ million)	Percentage of total assets %	Percentage of net assets %
Manufacturing:						
#11. Shandong Jinbao Electronics Co., Ltd.	Zhaoyuan, Shandong	Copper foil & laminates	Unlisted	17	2.86	3.42
12. Shenzhen Geesun Automation Technology Co., Ltd	Shenzhen, Guangdong	Production equipment for lithium ion batteries	Unlisted	–	–	–
13. Jiangsu Huaer Quartz Materials Co., Ltd.	Yangzhou, Jiangsu	High purity silica crucibles	Unlisted	–	–	–
14. Liaoning Zhenlong Native Produce Holding Company Ltd.	Fuxin, Liaoning	Food processing	Unlisted	6	0.98	1.17
15. Hwagain Group Co., Ltd.	Nanning, Guangxi	Printing paper & tissue paper	Unlisted	7	1.09	1.31
		Sub-total:		**30**	**4.93**	**5.90**
Others:						
(i) Energy & Resources:						
16. Wuhan Rixin Technology Co., Ltd.	Wuhan, Hubei	Solar energy	Unlisted	7	1.20	1.44
(ii) Information Technology:						
17. Xi'an Jinpower Electrical Co., Ltd.	Xi'an, Shaanxi	Power grid monitoring system	Unlisted	1	0.07	0.09
#18. NTong Technology Co., Ltd.	Beijing	Software development	Unlisted	14	2.36	2.82
19. Teralane Semiconductor (Shenzhen) Co., Ltd.	Shenzhen, Guangdong	IC design	Unlisted	1	0.14	0.16
(iii) Agriculture:						
20. Xinjiang Chengtian Agriculture & Animal Husbandry Development Co., Ltd.	Bazhou, Xinjiang	Cotton, jujube	Unlisted	6	0.98	1.17
(iv) Medical & Pharmaceutical:						
#21. Nanjing Sanhome Pharmaceutical Co., Ltd.	Nanjing, Jiangsu	Pharmaceutical	Unlisted	17	2.87	3.43
(v) Real Estate:						
22. China Merchants Plaza (Shanghai) Property Co., Ltd.	Shanghai	Office & commercial	Unlisted	–	–	–
		Sub-total:		**46**	**7.62**	**9.11**
		Total:		**573**	**95.34**	**114.18**

Ten largest investments of the Fund as of 31 December 2013

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 1,040 branches and offices across China, CMB has established a branch in Hong Kong and owns 100% of Wing Lung Bank, and has also established a branch and a representative office in New York, the United States, as well as representative offices in both London, the United Kingdom, and Taipei. As of 31 December 2013, the Fund held 63.20 million A shares of CMB, representing an equity interest of 0.251%, with a corresponding investment cost of RMB177.02 million (equivalent to US$23.46 million). In June 2013, the Fund received a cash dividend of RMB33.91 million from CMB for 2012.

As of the end of 2013, the carrying value of the Fund's interest in CMB was US$112.78 million, representing a decrease of 4.09% from the value at the end of last year of US$117.59 million.

According to an announcement made by CMB on 15 February 2014, the unaudited net profit of CMB for 2013 was RMB51.8 billion, up 14.42% year-over-year.

In October 2013, CMB completed the acquisition of a 50% equity interest in CIGNA & CMC Life Insurance Co., Ltd. The same month, CMB also completed a change of business registration in relation to the acquisition of a 21.6% equity interest in China Merchants Fund Management Co., Ltd. ("**CMFM**") held by ING Asset Management B.V. Upon completion of the acquisition, CMB owns an aggregate 55% equity interest in CMFM.

In late September 2013, CMB completed both its A and H share rights issuances and raised RMB27.5 billion and HK$7.9 billion, respectively, to supplement its capital base. During the process, the Fund, with the authorisation of its shareholders to participate in the subscription of this new A shares issuance of CMB, invested RMB87.01 million (equivalent to US$14.10 million) in subscription of 9.37 million new A shares of CMB, raising the total number of CMB A shares held by the Fund from 53.83 million shares to 63.20 million shares, and the percentage of equity held from 0.249% to a slightly higher 0.251%.

Pursuant to a condition imposed by the Hong Kong Stock Exchange when granting the waiver in the subscription for the A rights shares of CMB, the Fund was required, within the 6 months following 11 September 2013, to dispose of CMB A shares to the extent that its interest in CMB would not exceed 20% of the Fund's net asset value. As of 24 January 2014, the Fund has, in aggregate, disposed of 8 million A shares of CMB. Furthermore, as of the close of trading on 24 January 2014, the Fund's interest in CMB was 19.12% of the Fund's net asset value, thereby fulfilled the condition for the waiver.

During 2013, 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 820 branches and offices across China. As of 31 December 2013, the Fund held 66.94 million A shares of IBC, representing an equity interest of 0.351%, with a corresponding investment cost of RMB110.18 million (equivalent to US$11.55 million). In July 2013, the Fund received a cash dividend of RMB25.44 million from IBC for 2012. In addition, in July 2013, IBC distributed bonus shares to its shareholders on the basis of 5 bonus shares for every 10 existing shares. The A shares of IBC held by the Fund correspondingly increased to 66.94 million shares, maintaining the percentage of equity held at 0.351%.

As of the end of 2013, the carrying value of the Fund's interest in IBC was US$111.21 million, representing a decrease of 6.20% from the value at the end of last year of US$118.56 million.

According to an announcement made by IBC on 30 October 2013, the unaudited net profit of IBC for the nine months ended 30 September 2013 was RMB33.1 billion, up 25.67% year-over-year.

In March 2013, IBC announced that it had obtained approval from the China Securities Regulatory Commission ("**CSRC**") to establish Industrial Fund Management Co., Ltd., with registered capital of RMB500 million, of which 90% is attributable to IBC and 10% to China Shipping Investment Co., Ltd.

In October 2013, IBC obtained approval from its shareholders meeting for the issuance of eligible Tier-2 capital bonds with a write-down feature and a maturity of not less than 5 years, with an aggregate amount up to RMB20 billion in the domestic and overseas market by the end of 2014, in order to replenish Tier-2 capital and increase the capital adequacy ratio of the bank.

In January 2014, IBC obtained a banking license from the Hong Kong Monetary Authority and becomes a Hong Kong licensed bank.

During 2013, the Fund did not dispose of any A shares 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 2013, the Fund held a 6.94% equity interest in CCT, with a total investment cost of US$50.49 million. In July and August 2013, the Fund received a total cash dividend of US$9.53 million from CCT for 2012.

As of the end of 2013, the carrying value of the Fund's interest in CCT was US$123.32 million, representing an increase of 11.66% over the end of last year of US$110.44 million.

For 2013, CCT recorded an unaudited net profit (excluding its share of the results of its affiliates under the equity method) of RMB1.56 billion, representing a decrease of 2.96% over the same period last year. During the year, net interest income declined slightly while investment income rose, primarily because CCT reduced the volume of new loans funded with its proprietary capital in order to increase liquidity. In addition, the commissions and handling fees decreased slightly from the same period last year.

Since the second half of 2012, securities companies, fund companies and insurance companies have consecutively obtained approval from the CSRC under the new rules and regulations to conduct asset management businesses similar to trust management, leading to more intense competition in the trust industry. Since China's size of assets under trust management reached an historical high of RMB10.91 trillion at the end of 2013, trust assets may not grow as rapidly as they have in the past. As a result, profit growth is expected to slow.

CCT announced in June 2012 that Shanxi Zhenfu Energy Group (山西振富能源集團), in which funds of RMB3.03 billion had been invested from a collective trust scheme, namely "2010年中誠 • 誠至金開1號集合信託計劃", had become involved in a private off-balance-sheet financing arrangement. Under the central leadership of a dedicated team organised by the local government, CCT participated actively and worked to resolve the issue properly, with maximum protection for the interests of investors of the trust. This trust product was due for repayment to investors on 31 January 2014. CCT announced on 27 January 2014 that it had reached an agreement with potential investor(s). It is learnt that investors in this trust may elect to enter into a transfer agreement to transfer the beneficial interest of the share of trust held, with the transfer price being the invested principal of the share of trust.

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

As of the end of 2013, the carrying value of the Fund's interest in China Media Management was US$0.85 million, representing an increase of 1.19% over the end of last year of US$0.84 million.

In 2013, the management team of China Media Management focused primarily on post-investment management and the formulation of exit plans for certain investment projects. As a result, the company experienced some delays with respect to new investment projects. China Media Management plans to complete one to two new investment projects in the first half of 2014.

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. Total capital of RMB5 billion is expected to be raised, with an initial capitalisation of RMB2 billion. China Media Investment has an investment horizon of 10 years. The scope of investments for China Media Investment includes major projects in broadcasting and media, publishing, animation and creative media, as well as direct investments in the culture and media sector in both China and overseas. China Media Management, in which the Fund has an interest, is the general partner and investment manager of China Media Investment.

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. The second installment of RMB6.26 million (equivalent to US$0.95 million) was made in March 2011, and additional capital investments of RMB6.77 million (equivalent to US$1.08 million), RMB28.82 million (equivalent to US$4.57 million), RMB3.08 million (equivalent to US$0.48 million) and RMB35.24 million (equivalent to US$5.56 million) were made in February, July, August and September 2012, respectively. The seventh installment of RMB20.64 million (equivalent to US$3.35 million) was made in September 2013, and the eighth installment of RMB12.57 million (equivalent to US$2.05 million) was made in February 2014. Cumulatively, the Fund has invested RMB153.38 million (equivalent to US$23.90 million) in China Media Investment, representing 76.69% of the total investment committed by the Fund.

As of the end of 2013, the carrying value of the Fund's interest in China Media Investment was US$19.91 million, representing an increase of 19.44% over the end of last year of US$16.67 million.

As of the end of 2013, the unaudited net asset value of China Media Investment was RMB1.178 billion, representing an increase of 14.93% over the end of last year of RMB1.025 billion.

By the end of 2013, China Media Investment had completed investments in five projects, namely, Star China, Renren Inc., OCJ (東方購物), Shanghai Jade East Propagation Co., Ltd. (上海翡翠東方傳播有限公司) and Shanghai Oriental DreamWorks Co., Ltd. (上海東方夢工廠有限公司). Among these, Shanghai Oriental DreamWorks successfully launched two films during 2013 in the domestic market, "The Croods" and "Turbo", in April and September, respectively; both films met with outstanding box office success. The TV programme production company, under Star China, in collaboration with CCTV, produced another programme after "The Voice of China (中國好聲音)" – "Song of China (中國好歌曲)", which received satisfactory ratings.

NBA China, L.P. ("NBA China") is a limited liability partnership incorporated in the Cayman Islands in 2007. 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 original investment by the Fund in 2008 was US$23 million, representing a 1% preferred equity stake in NBA China. The Fund received a partial return of capital from NBA China in early January 2013, in the amount of US$17.25 million. The principal amount of the Fund's investment in NBA China then reduced to US$5.75 million. As of 31 December 2013, the Fund still held a 1% preferred equity stake in NBA China. The Fund received a cash distribution from NBA China of US$98,900 in January 2013 and of US$221,000 in February 2014.

As of the end of 2013, the carrying value of the Fund's interest in NBA China was US$11.06 million, representing an increase of 37.73% over the end of last year of US$8.03 million (adjusted by the aforementioned return of capital).

From June to August 2013, NBA China launched the "NBA Nation" initiative for a second consecutive year, to offer fans a basketball and entertainment playground which integrates numerous elements including basketball and music. Visiting 12 cities across the country, the event was supported by NBA stars, along with numerous on-site activities and music shows.

NBA China renewed agreements with Sina and Tencent in late 2013, extending and expanding the scope of cooperation in digital media.

Unibank Media Group Inc. ("Unibank Media") was established in Beijing in 2011 as an operating entity following a merger and reorganisation, and is principally engaged in commercial advertising through its video display network in banking service outlets across China. The Fund made a total investment of RMB75 million (equivalent to US$10.98 million) in one of its predecessors, Inbank Media (China) Co., Ltd. ("**Inbank Media**") in June 2009 and February 2010, and held a 14.51% equity interest in Inbank Media. After the completion of the merger and reorganisation as well as a capital increase by Inbank Media in 2011, the Fund holds a 7.62% equity interest in Unibank Media. (Note: The Fund has made a contingent commitment to transfer a 1.14% stake in Unibank Media to the management of Unibank Media, as an incentive earned upon completion of an IPO or sale of the business. The total incentive to the management of Unibank Media is a 15% stake in Unibank Media, to be transferred by all shareholders, and 1.14% is the Fund's pro rata portion of the incentive. Net of this incentive, the Fund's stake in Unibank Media will be 6.48%.)

As of the end of 2013, the carrying value of the Fund's interest in Unibank Media was US$4.35 million, representing an increase of 44.52% over the end of last year of US$3.01 million.

By the end of 2013, Unibank Media had installed approximately 27,000 advertising display devices in banking service outlets at over 17,000 network locations in major cities across China (of these, approximately 24,000 have been fully tested and are operational). With advertising display devices now largely in place, the focus of Unibank Media has shifted from expansion of the banking network resources to the strengthening of advertising sales and optimising its sales mix, leading the company from loss to profit in 2013. The unaudited net profit of Unibank Media in 2013 was RMB13.08 million.

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 July 2013, the Fund received a cash dividend of RMB9.48 million from Guangzhou Digital for 2012.

As of the end of 2013, the carrying value of the Fund's interest in Guangzhou Digital was US$57.90 million, representing an increase of 104.02% over the end of last year of US$28.38 million.

Continuing its promotional efforts for interactive high definition TV (HDTV) in 2013, Guangzhou Digital launched the "Broadband Access – 3G Mobile Phone – Interactive HDTV" joint-product package in cooperation with the Guangzhou Branch of China Unicom, beginning in March, and has designed a variety of tariff packages intended to attract more users of interactive HDTV and broadband access (with a higher ARPU value, as compared with the users of common digital TV) through the offering of more attractive prices and services. By the end of 2013, Guangzhou Digital had nearly 250,000 interactive HDTV users and nearly 160,000 broadband access users in total, with an increase of about 126,000 users and 15,000 users, respectively, compared to the end of 2012. In 2013, the audited net profit of Guangzhou Digital increased approximately 9% due to the development of new value-added business and an increase in the number of users.

In addition, Conghua and Zengcheng counties were upgraded to district level in February 2014. This has laid a solid foundation in terms of administration for smooth consolidation of Guangzhou Digital's cable TV customers from these districts. The integration work between Guangzhou Digital and Guangdong Broadcasting and Television Network Co., Ltd. remains at a standstill. The Fund will continue to monitor the progress of the integration in order to protect the interests of the Fund.

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 current business segments include television, broadcasts, newspapers, 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. At the end of April 2013, CBN completed its new issuance of shares to Yingda Media Investment Group Co., Ltd., a company under State Grid, and the percentage of equity in CBN held by the Fund was diluted accordingly to 5.02%.

As of the end of 2013, the carrying value of the Fund's interest in CBN was US$11.14 million, representing an increase of 9.97% over the end of last year of US$10.13 million.

In 2013, CBN actively expanded its overseas business. CBN launched a new channel in Singapore early in the year, and began partnering with Hong Kong Airlines in October 2013 to broadcast its TV programmes on the 48 Southeast Asia routes of the airline company. In addition, some CBN programmes are broadcasted in Hong Kong, Macau, Taiwan, Singapore, Malaysia, Indonesia, USA, etc. Since early 2014, CBN changed its partnership approach with Ning Xia Satellite TV from full channel cooperation to project-based cooperation.

In response to slowing growth in China and the weak securities market, advertising market was extremely sluggish during 2013. CBN's TV advertising revenues also recorded steeper declines in the second half of the year. Combined with more intense competition from new media, CBN's overall business turned from profit to loss in 2013. It is expected that traditional media will continue to face challenges from new media and further intensifying competition in business, indicating that CBN will face more challenges in the future.

Esurfing Media Co., Ltd. ("Esurfing") was established in Shanghai in 2011. It is principally engaged in providing platform services for mobile and online videos, and is one of the larger mobile video platform enterprises in China. The Fund invested RMB102 million (equivalent to US$16.07 million) in August 2012 for a 5.37% equity interest in Esurfing.

As of the end of 2013, the carrying value of the Fund's interest in Esurfing was US$44.80 million, representing an increase of 241.20% over the end of last year of US$13.13 million.

Esurfing has entered into partnerships with 140 mainstream content providers in China and has become the largest mobile platform for paid videos in China. By the end of 2013, Esurfing had 110 million mobile video users, an increase of 20 million users since December 2012. Of these users, over 19 million were paid users. The composition of paid users has continued to improve, and the proportion of active subscription users with higher payments has increased and now accounts for over 70% of all users. The ARPU has also increased steadily. Since the online video business transitioned from a free service to a paid service in June 2012, the number of paid users has increased by nearly 1 million within one and a half years. Benefiting from a continuing increase in the number of paid users and growth in ARPU, Esurfing recorded an audited net profit of over RMB100 million in 2013, representing an increase of nearly 110% over the same period last year.

China Telecom Corporation Limited, the publicly listed controlling shareholder of Esurfing, completed the transfer of its entire 80% equity interest in Esurfng to its parent company, China Telecom Group, in July 2013. It is learnt that Esurfing intends to launch a new round of financing with the intention to introduce new strategic investors with compelling content resources or with licenses for new value-added business in 2014. The Fund will monitor closely the progress of the above financing.

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% as of 31 December 2013.

As of the end of 2013, the carrying value of the Fund's interest in Jinbao was US$17.16 million, representing a decrease of 19.21% from the value at the end of last year of US$21.24 million.

Jinbao continued to record losses, with an audited net loss of RMB111.56 million for 2013. The slow recovery in the copper foil and laminate industry in which Jinbao operates has been attributed to inadequate market demand, insufficient growth in orders, intense competition and weak overall sentiment, leading to weakness in Jinbao's financial results.

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 supercapacitors. The Fund invested RMB20 million (equivalent to US$2.93 million) in May 2010, and held a 20.78% stake in Geesun Technology as of 31 December 2013.

As of the end of 2013, the carrying value of the Fund's interest in Geesun Technology was nil, compared to US$0.33 million last year's end.

Due to a number of factors, including weak market demand and internal operational issues, Geesun Technology has recorded losses since 2011, with an unaudited net loss of RMB7.59 million for 2013. As a result, shareholders, including the Fund, suffered greater losses. At the shareholders meeting, it was resolved that the controlling shareholder of Geesun Technology would transfer shares of Geesun Technology to certain other shareholders at no consideration. Consequently, the Fund has received shares that confer an additional 8.16% stake. The relevant business registration in relation to this transfer was completed on 31 May 2013, and the Fund's total stake in Geesun Technology increased from 12.62% to 20.78%.

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

As of the end of 2013, the carrying value of the Fund's interest in Jiangsu Huaer was nil, same as last year's end.

As a result of anti-dumping and anti-subsidy measures taken by Europe and the United States against China's solar energy industry, many downstream operators in the solar photovoltaic industry, and especially single crystalline silicon operators, have seen weaker financial results. Jiangsu Huaer has seen gradual increase in its average trade receivables collection period since 2012. In addition, commercial banks have continued to tighten lending standards for solar energy related enterprises, including Jiangsu Huaer, which intensified pressure on the company's cash flow, increased its financing costs and caused disruptions to normal production and operations. In 2013, Jiangsu Huaer recorded an unaudited net loss of RMB11.06 million.

With the stimulation provided by China's new photovoltaic policy, following two consecutive sluggish years, the polycrystalline silicon solar cell industry began to stabilise in the fourth quarter of 2013. However, the single crystalline silicon solar cell industry has recovered more slowly, and demand remained weak in 2013 as the products are mainly used in developed markets like Japan and with higher price. Demand for single crystalline silicon solar cells is expected to increase in 2014, and along with it demand for high quality silica crucibles which are required for their production, as over-production and excess downstream inventory are gradually absorbed, and as the percentage of distributed power stations gradually increases due to limited land resources leading to requirements for greater efficiency in power generation.

At present, Jiangsu Huaer is receiving export orders with better payment terms. Collection periods for domestic orders have also shortened. However, liquidity remains tight and this has continued to limit the volume of orders the company may accept. On balance, the company is not expected to see a significant improvement in operational results in the short term.

Liaoning Zhenlong Native Produce Holding Company Ltd. ("Liaoning Zhenlong") was established in Fuxin, Liaoning in 2000. It is a joint-stock limited company with an export license, principally engaged in the acquisition, processing, and sale of pumpkin seeds and other nut products. Its main products include pumpkin seeds, pumpkin nuts, sunflower seeds, sunflower nuts, pine nuts, pistachios, and almonds, as well as other baked nuts, pumpkin dried buckwheat noodles and cereals, etc. Products are sold via two channels, overseas and domestic. The overseas market covers more than twenty countries and regions in Europe, America, Asia Pacific and Oceania, while the domestic market covers mid-size to large cities, including Shanghai, Beijing, Nanjing and Chengdu. The Fund invested a total of RMB19.20 million (equivalent to US$2.97 million) in August 2011 for a 2.00% equity interest in Liaoning Zhenlong.

As of the end of 2013, the carrying value of the Fund's interest in Liaoning Zhenlong was US$5.87 million, representing an increase of 54.88% over the end of last year of US$3.79 million.

In 2013, the audited net profit of Liaoning Zhenlong increased over the same period last year, due primarily to the active development of the domestic and overseas markets, and to expanding sales channels.

Liaoning Zhenlong continues to pursue an IPO, but has encountered delays due to the CSRC's policy, and it is still at the stage of responding to feedback from the CSRC.

Hwagain Group Co., Ltd. ("Hwagain") was formed by the merger of two paper manufacturers located in Nanning, Guangxi in 1998. It is principally engaged in the research and development, production and sale of high quality printing paper and tissue paper. Hwagain was renamed from Guangxi Hwagain Group Co., Ltd. to its present name in September 2013. The Fund invested RMB119.99 million (equivalent to US$19.00 million) in January 2012 for a 7.10% equity interest in Hwagain.

As of the end of 2013, the carrying value of the Fund's interest in Hwagain was US$6.58 million, representing a decrease of 44.05% from the value at the end of last year of US$11.76 million.

The overall printing paper industry remained weak in 2013, but improved slightly compared to the second half of 2012 due to a slow recovery in the global economy, to increased market prices for imported pulp, and to many smaller firms exited the industry after suffering sizable losses. The days of inventory for the industry have gradually dropped to a level close to the average of previous years and profitability has recovered to some extent.

For Hwagain, which operates with a "Forest-Pulp-Paper Integration" business strategy, its forest resources have gradually entered a felling cycle beginning in the second half of 2012. Since then, the forestry business has realised a profit and has reduced the production cost of pulp for Hwagain. For 2013, Hwagain recorded an unaudited net profit of RMB47.61 million, representing an increase of 46.90% over the same period last year.

Due to problems with the supply of electricity, among other issues, the construction of its 150,000 tonne high-end tissue paper project in Ganzhou, Jiangxi had been deferred for nearly two years, and the first phase finally commenced operations in September 2013. The second stage is expected to commence operations in the second quarter of 2014.

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 5.00% equity interest in Wuhan Rixin. In September 2013, the Fund received a cash dividend of RMB330,000 from Wuhan Rixin for 2012.

As of the end of 2013, the carrying value of the Fund's interest in Wuhan Rixin was US$7.20 million, representing an increase of 197.52% over the end of last year of US$2.42 million.

As Wuhan Rixin is engaged primarily in the construction and operation of BIPV power stations, and is an end user of the supply chain, the downturn in the solar photovoltaic industry since 2011 has in fact benefited the company by reducing the construction and operating costs of power stations, and thereby enhancing the efficiency of its funds for construction of power stations and its gross margin on operations. For 2013, Wuhan Rixin recorded an unaudited net profit of over RMB65 million, representing a slight increase over the same period last year.

In addition to the ongoing installation of medium and large BIPV power stations in industrial and commercial buildings, Wuhan Rixin is currently testing small scale solar powered electric systems for residential, with plans for a test launch in the Donghu Development Zone in Wuhan in 2014.

Xi'an Jinpower Electrical Co., Ltd. ("Jinpower Electrical") was established in Xi'an, Shaanxi in 2001 and is a high technology enterprise principally engaged in the research and development, and production of intelligent 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. As of 31 December 2013, the Fund holds a 4.83% equity interest in Jinpower Electrical. In May 2013, the Fund received a cash dividend of RMB463,000 from Jinpower Electrical for 2012.

As of the end of 2013, the carrying value of the Fund's interest in Jinpower was US$0.45 million, representing a decrease of 88.40% from the value at the end of last year of US$3.88 million.

In early 2013, the national power grid completed the formulation of many of the standards for smart power grid online monitoring equipment. Tests were then conducted in certain provinces on products manufactured according to the new standards, including tests on their actual operational results and their compatibility with original systems. This led to a decrease in equipment orders compared to the same period in 2012. In 2013, Jinpower Electrical remains a market leader in on-line monitoring for transmission lines, and it recorded unaudited revenues of over RMB80 million for 2013, representing a decrease compared to the same period last year.

In 2013, Jinpower Electrical has made progress in its endeavours to conduct monitoring of lines by unmanned equipment, as well as to replace lithium batteries with newer magnesium batteries that are better adapted to difficult operating conditions in remote locations. In October 2013, Jinpower Electrical started construction of a new production base in order to build a strong foundation for the introduction of new and more competitive products in the future. In November 2013, Jinpower Electrical was recognised as one of the Key New High Tech Enterprises of the State's Torch Plan (a total of 626 companies in China and 23 companies in Shaanxi) by the Torch Plan Centre under the Ministry of Science and Technology.

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 February 2013, the Fund received a cash dividend of RMB2.85 million from NTong for 2012.

As of the end of 2013, the carrying value of the Fund's interest in NTong was US$14.16 million, representing a decrease of 13.34% from the value at the end of last year of US$16.34 million.

With the rapid development of smart cities across China, NTong obtained more orders from its primary business. The unaudited net profit of NTong recorded a year-over-year growth of nearly 50% in 2013.

Unisplendour Corporation Limited ("**UNIS**"), which is a company listed on the Shenzhen Stock Exchange, announced on 26 July 2013 that it will purchase 100% of the shares of NTong, valued at RMB700 million, with a combination of cash and equity. 25% of the consideration for the NTong's shares held by the Fund will be received as cash, and the remaining 75% will be received as shares in UNIS, with a lock-up period of 12 months. This transaction has yet to complete. If the transaction is completed, the Fund will receive RMB21.59 million in cash and 4.84 million shares in UNIS.

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 systems 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 spans the entire process of IC design. Teralane Semiconductor is a state-accredited high technology enterprise and software enterprise. The development of IC design and applications, 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 (per the registered capital at the time of subscription).

As of the end of 2013, the carrying value of the Fund's interest in Teralane Semiconductor was US$0.82 million, representing a decrease of 18.00% from the value at the end of last year of US$1.00 million.

On 15 January 2014, the Fund entered into a supplemental agreement with Teralane Semiconductor confirming the non-exercise of conversion right. Pursuant to the supplemental agreement, Teralane Semiconductor paid interest amounting to RMB1.20 million for the period from December 2011 to December 2013, and shall pay the outstanding principal amount prior to 30 June 2014, together with accrued interest from December 2013 through the principal payment date.

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

As of the end of 2013, the carrying value of the Fund's interest in Chengtian was US$5.87 million, representing an increase of 23.06% over the end of last year of US$4.77 million.

The Fund and the controlling shareholder of Chengtian entered into an agreement on 23 September 2013 whereby the Fund agreed to sell, and the controlling shareholder agreed to purchase, all of the 6.25% equity interest the Fund holds in Chengtian. Total consideration for the disposal is RMB35.79 million and will be payable in three installments, the last of which shall be settled on or before 31 August 2014. After the Fund has received the total consideration in full, the Fund will complete the transfer of its entire 6.25% equity interest in Chengtian to the controlling shareholder. The Fund received the first installment of RMB12.53 million in October 2013 and the second installment of RMB12.78 million in March 2014.

Nanjing Sanhome Pharmaceutical Co., Ltd. ("Sanhome Pharmaceutical") was incorporated in Nanjing, Jiangsu in 1996 and is principally engaged in the research and development, production and sale of pharmaceutical products. The company's main products include the Xiaoaiping Injection, Levornidazole and Sodium Chloride Injections, and Ornidazole and Sodium Chloride Injections. Sanhome Pharmaceutical is a national grade high technology enterprise. The Fund invested RMB105 million (equivalent to US$17.17 million) in December 2013 for a 3.50% equity interest in Sanhome Pharmaceutical.

As of the end of 2013, the carrying value of the Fund's interest in Sanhome Pharmaceutical was US$17.22 million.

The restructuring of Sanhome Pharmaceutical is expected to be completed in the first half of 2014. Meanwhile, the company is in preparation for listing and is expected to submit materials for its IPO to the CSRC upon completion of restructuring. Sanhome Pharmaceutical is in the process of restructuring and is adopting certain accounting policies for revenues and costs in order to meet listing requirements and regulations. Its 2013 financial statements are currently under preparation.

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 2013, China Merchants Plaza recorded an unaudited net profit of RMB15.47 million, representing an increase of 30.38% over the same period last year, which was mainly due to a significant decrease in selling expenses.

REVIEW OF LISTED INVESTMENTS

In 2013, the A shares market in China began the year with a rally, and then declined until a rebound in the third and fourth quarters, and softened again near the end of the year. The SSE Composite Index closed at 2116 on 31 December 2013, representing a decrease of 6.75% compared to the end of 2012. Early this year, the market supply of capital was more favourable, while gradual improvement in economic data led to an expectation of economic recovery, driving the SSE Composite Index to a peak of 2445 on 18 February. Later, the data showed a slowdown in economic growth, while interbank short-term funding began to tighten in June, prompting the SSE Composite Index to plunge by 20.76% from 29 May to 25 June. Following the announcement of greater liquidity support to certain financial institutions by the People's Bank of China, A shares rose from their lows. Subsequently, driven by the Shanghai Pilot Free Trade Zone initiative introduced in late September and by the number of financial reforms suggested in the "Decision" on intensified reforms announced in the Third Plenary Session of the 18th Central Committee of the Communist Party of China in November, the index gained from August to November. Nevertheless, the market concerns regarding the IPO resumed in 2014 and the interbank interest rate hike in late December caused capital to tighten near year end. As a result, the A shares market declined again in December. In contrast to the weakness in the mainboard, the Shenzhen GEM board demonstrated outstanding performance, with the GEM index up 82.73% in 2013.

Hong Kong's equity market started 2013 with a short rally before a period of decline and subsequent stability. The Hang Seng Index closed at 23306 for the year, up 2.87% compared to the end of 2012. Benefiting from an expectation of China's economic recovery, the Hang Seng Index rose to a high of 23945 in early February. Later, affected by negative factors such as new concerns over the European debt crisis, news regarding early tapering of QE by the US Federal Reserve, and soaring interest rates in China's interbank short-term capital market, Hong Kong stock market experienced a volatile decrease and the Hang Seng Index dropped to a low of 19426 in June. In November, the Third Plenary Session of the 18th Central Committee of the Communist Party of China announced a series of policies and removed uncertainty with respect to its policies, which drove the index to a 2-year peak of 24112 in December.

The Fund primarily invests directly in high quality investment projects in China, and mostly in unlisted enterprises. Given the large quantity of listed shares that the Fund still holds, the Fund intends to not increase its exposure to the stock markets. Therefore, the Fund did not trade any equities in the secondary market during 2013.

During the year, the listed corporate bond investment held by the Fund matured and was redeemed. As of 31 December 2013, the Fund did not hold any listed corporate bond investments (31 December 2012: US$0.71 million).

PROSPECTS

In 2014, global economic growth is expected to demonstrate slow recovery. Nevertheless, with many variables influencing economic activity, downward risk still exists. Growth in China, as well as in other emerging market economies, has declined from the peak levels of the past few years, but should also remain higher than in most developed economies, as a result of both cyclical and structural factors. China's growth in 2014 may be lower than it was in 2013, but exports will benefit from gradual improvement in developed economies. Furthermore, due to ongoing anti-corruption efforts by the Central Government, industries such as restaurants, wines and luxury goods will remain weak, with little growth in consumption. In addition, current investment growth will be driven mainly by infrastructure and real estate projects. At the same time, the real estate market has been turbulent, imposing downward pressure on investment growth. In 2014, controlling inflation continues to be the primary goal of macroeconomic adjustments by the Central Government. A steady decline in the domestic economy, over-capacity, lower pressure from imported inflation and good harvests shall inhibit inflation. Nevertheless, stronger inflationary expectations, a resurgence in price of vegetables and pork, a rise in labour costs, and steady loosening of money supply and carryover effects will cause some amount of inflationary pressure. In this environment, the Fund will take the initiative to grapple with these uncertainties and to seek out the best opportunities for investment.

BUSINESS STRATEGY

The Fund is an investment company listed on the Hong Kong Stock Exchange. Its main business is to directly invest in high quality unlisted enterprises in China. Our strategies are: to primarily invest in high quality and mature investment projects while also seizing good opportunities in emerging industries; to closely monitor changes in global financial conditions and in China's economic policies for diverse investments; to continue viewing industry developments from a broad perspective and to avoid the risk of investing in over-bought sectors; to constantly optimise the investment portfolio and to manage the level of risk; to avoid blindly engaging in price competitions when bidding on investment projects; and to fulfill our goal of long-term appreciation and preservation of capital value. Currently, our investment focus is on quality enterprises in the industries of financial services, consumer goods (with particular focus on consumer-oriented projects in second and third tier cities), culture and media, advanced manufacturing, non-traditional financial services, energy, agriculture, medical and pharmaceutical, etc. Meanwhile, the Fund is also paying attention to quality enterprises in other industries.

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 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 2013, 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
Unibank 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%
Unibank 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%
Jiangsu Huaer	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%
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%
Hwagain	19,004,900	161,100	0.847%
China Media Investment (3rd installment capital contribution)	1,075,300	6,200	0.575%
China Media Investment (4th installment capital contribution)	4,566,600	26,300	0.577%
Chengtian	4,733,300	74,100	1.566%
China Media Investment (5th installment capital contribution)	484,900	2,800	0.580%
Esurfing	16,068,600	125,100	0.778%
China Media Investment (6th installment capital contribution)	5,555,100	32,200	0.579%
China Media Investment (7th installment capital contribution)	3,352,500	18,900	0.562%
Sanhome Pharmaceutical	17,171,500	94,100	0.548%

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

In addition, as of 31 December 2013, 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$*	**Mr. WU Huifeng** (Note 4) *US$*	**Mr. TSIM Tak Chee** (Note 5) *US$*
Unibank Media (1st round capital injection)	12,900	12,900	1,290	12,900	N/A
Wuhan Rixin	3,510	4,390	1,290	3,510	N/A
Guangzhou Digital	12,900	25,810	1,290	12,900	N/A
Unibank Media (2nd round capital injection)	6,950	8,750	1,290	6,950	N/A
China Media Management	300	580	30	300	N/A
Geesun Technology	4,640	5,800	1,290	4,640	N/A
China Media Investment (1st installment capital contribution)	2,500	5,010	250	2,500	N/A
Jiangsu Huaer	3,500	4,380	1,290	3,500	N/A
CBN	12,850	25,700	1,290	25,700	N/A
Jinpower Electrical	4,830	6,030	1,280	4,830	N/A
China Media Investment (2nd installment capital contribution)	390	780	40	390	N/A
Liaoning Zhenlong	4,720	5,900	1,280	4,720	N/A
NTong	16,420	12,830	1,280	16,420	N/A
Teralane Semiconductor	3,090	3,860	1,290	3,090	N/A
Hwagain	12,880	25,770	1,290	19,330	N/A
China Media Investment (3rd installment capital contribution)	430	850	40	430	N/A
China Media Investment (4th installment capital contribution)	1,820	3,630	180	1,820	N/A
Chengtian	12,890	12,890	1,290	12,890	N/A
China Media Investment (5th installment capital contribution)	190	390	20	190	N/A
Esurfing	12,890	12,890	1,290	12,890	N/A
China Media Investment (6th installment capital contribution)	2,220	4,440	220	2,220	N/A
China Media Investment (7th installment capital contribution)	1,300	2,600	130	1,300	N/A
Sanhome Pharmaceutical	12,900	12,900	1,290	N/A	12,900

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 and resigned on 30 May 2013
Note 5: Director of the Investment Manager and appointed on 30 May 2013

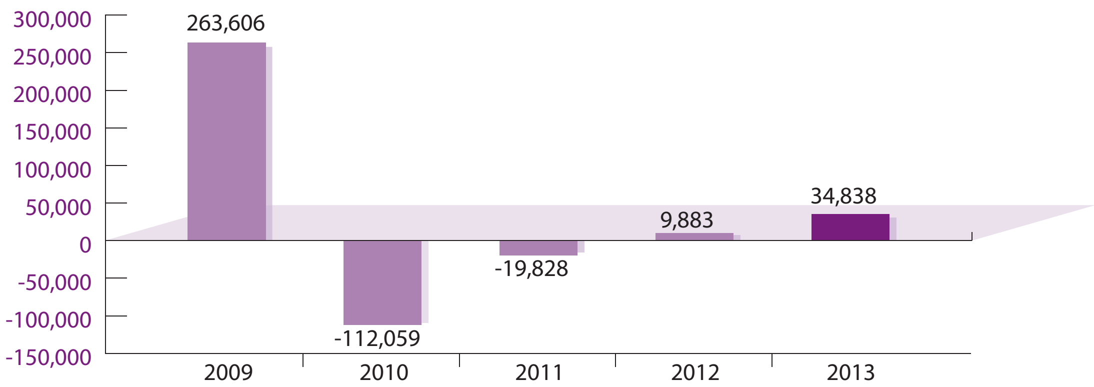
Ms. ZHOU Linda Lei
Managing Director
China Merchants China Investment Management Limited

Hong Kong, 26 March 2014

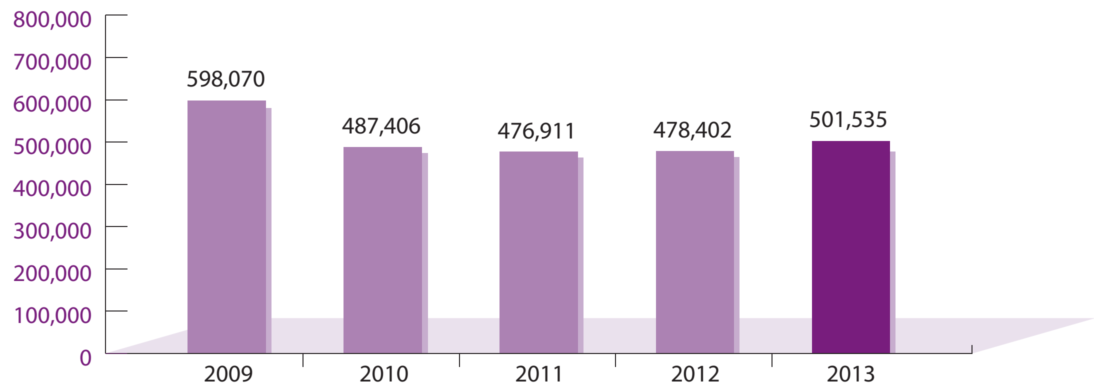
FINANCIAL HIGHLIGHTS

YEAR	NET PROFIT (LOSS) *(US$'000)*	NET ASSETS *(US$'000)*
2013	**34,838**	**501,535**
2012	9,883	478,402
2011	(19,828)	476,911
2010	(112,059)	487,406
2009	263,606	598,070

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 2013.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. The activities of the subsidiaries and associates are set out in notes 31 and 15 respectively to the financial statements.

RESULTS

The results of the Group for the year ended 31 December 2013 are set out in the consolidated statement of profit or loss and other comprehensive income on page 58.

The Directors recommend the payment of a final dividend of US$0.06 per share (2012: US$0.05) for 2013 to the shareholders on the register of members on 27 May 2014 amounting to US$9,139,981 (2012: US$7,917,171).

DISTRIBUTABLE RESERVES OF THE COMPANY

The Company has an amount of US$95,546,028 (31 December 2012: US$131,259,410) available for distribution as at 31 December 2013.

SHARE CAPITAL

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

PURCHASE, SALE OR REDEMPTION OF SHARES OF THE COMPANY

At an extraordinary general meeting of the Company held on 7 June 2013, it was approved to make a voluntary cash offer to repurchase up to 7,917,171 ordinary shares of US$0.10 each of the Company in issue, representing approximately 5.00% of the entire issued share capital of the Company as at 13 May 2013, at a price of HK$20.94 per share, subject to the terms and conditions set out in the offer document dated 13 May 2013. As a result, a total number of 7,917,171 ordinary shares of US$0.10 each were repurchased and cancelled on 3 July 2013.

Save as disclosed above, 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. LIU Baojie
Mr. XIE Tao
Mr. ZHU Li
Mr. TSANG Wah Kwong

* *members of Investment Committee*

In accordance with Article 105 of the Articles of Association of the Company, Mr. CHU Lap Lik, Victor, Ms. ZHOU Linda Lei, Mr. KE Shifeng and Mr. LIU Baojie 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 59, 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 the Vice Chairman of China Merchants Capital Investment Co., Ltd. and 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 is a Hong Kong Deputy to the 12th National People's Congress of the PRC. 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 his master degree in Economics from the Graduate School of the People's Bank of China and master degree in Banking & Finance from the Finafrica Institute in Milan, Italy. 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 51, 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 Capital Investment Co., Ltd., 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. and Morgan Stanley Huaxin Fund Management Co., Ltd.; and the Chairman of China Merchants Holdings (UK) Limited, China Merchants Insurance Company Limited, Houlder Insurance Brokers Far East Limited and China Merchants Kunlun Equity Investment Management Co., Ltd.. Mr. HONG obtained his master degree in Economics from Peking University and master of science degree from The Australian National University.

Mr. CHU Lap Lik, Victor, aged 56, 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 Insurance Group and Siam Select Fund Limited. Mr. CHU took his law degree at University College London where he is now an Honorary Fellow.

Ms. ZHOU Linda Lei, aged 45, has been an Executive Director of the Company since March 2008 and holds chairmanship or 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. Ms. ZHOU is currently a Director of China Business Network, Guangzhou Digital Media Group Ltd., Hwagain Group Co., Ltd. and China Credit Trust Co., Ltd.. Ms. ZHOU is an Independent Non-executive Director of Jiangxi Shihong 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 and Master of Business Administration degree from California State University respectively.

Mr. TSE Yue Kit, aged 52, has been an Executive Director of the Company since November 2000 and holds directorship in the Investment Manager and a subsidiary of the Company. Mr. TSE is the General Manager in 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 experiences in accounting, auditing, corporate finance as well as investment. Mr. TSE is licensed with the Securities and Futures Commission in Hong Kong as responsible officer. Mr. TSE obtained his bachelor degree with honours in Accountancy from the University of Exeter, UK.

Ms. KAN Ka Yee, Elizabeth (alternate to Mr. CHU Lap Lik, Victor), aged 56, has been an Alternate Director of the Company since May 1999. She is Managing Director of First Eastern Investment Group with which she is a founding member since its establishment in 1988. She serves on boards of various companies which include Evolution Securities China Limited, Siam Select Fund Limited, Camper & Nicholsons Marina Investments Limited and Sustainable Development Capital (Asia) Limited. 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 48, has been a Non-executive Director of the Company since December 2009. He has 17 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. LIU Baojie, aged 50, has been an Independent Non-executive Director of the Company since December 2009. He has about 20 years of experience in the financial services industry. He is currently Chief Executive Officer of Huaneng Invesco WLR (Beijing) Investment Fund Management Company Ltd., and prior to this, he had worked for two other investment management companies focusing on China investment. Before that he held various positions with financial institutions, including Bank of America, ICEA Capital Limited and J.P. Morgan. Mr. LIU holds an MBA degree from University of Utah, USA.

Mr. XIE Tao, aged 50, has been an Independent Non-executive Director of the Company since October 2011. Previously, Mr. XIE engaged in the advisory practice at PricewaterhouseCoopers for 23 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 received his bachelor degree in Physics from Peking University.

Mr. ZHU Li, aged 65, has been an Independent Non-executive Director of the Company since 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.

Mr. TSANG Wah Kwong, aged 61, has been an Independent Non-executive Director of the Company since September 2012. He is a former partner of Hong Kong and China firm of PricewaterhouseCoopers. He has over 30 years of experience in auditing and providing support for initial public offerings and acquisition transactions. Currently, Mr. TSANG is an Independent Non-executive Director of a number of companies, including Agria Corporation (listed on the New York Stock Exchange), PanAsialum Holdings Company Limited (Stock Code: 2078.HK), Sihuan Pharmaceutical Holdings Group Ltd. (Stock Code: 460.HK) and TK Group (Holdings) Limited (Stock Code: 2283.HK). He is also an Alternate Director of PGG Wrightson Limited, a company listed on the New Zealand Stock Exchange. He was a Director of PGG Wrightson Limited from November 2011 to December 2012. Mr. TSANG is a Fellow Member of the Hong Kong Institute of Certified Public Accountants, a Member of the Chinese Institute of Certified Public Accountants, and a Fellow Member of The Association of Chartered Certified Accountants. Mr. TSANG received a bachelor degree of Business Administration from the Chinese University of Hong Kong.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SHARES

As at 31 December 2013, the interests of the Directors and their associates in the shares of the Company as recorded in the register maintained by the Company pursuant to Section 352 of the Securities and Futures Ordinance (the "**SFO**") or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers, were as follows:

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

Save as disclosed above, none of the Directors or chief executives, or their associates, had any interests or short positions in any shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of the SFO) as recorded in the register required to be kept under Section 352 of the SFO as at 31 December 2013, 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 2013.

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

Save as disclosed, 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.

COMPETING INTERESTS

Mr. LI Yinquan and Mr. HONG Xiaoyuan are respectively Vice Chairman and Director of China Merchants Capital Investment Co., Ltd. which is actively involved in direct investments and which may compete, either directly or indirectly, with business of the Group. Mr. CHU Lap Lik, Victor and Ms. KAN Ka Yee, Elizabeth (being alternate to Mr. CHU Lap Lik, Victor) are Directors of various companies within First Eastern Investment Group which is actively involved in direct investments in the PRC and which may compete, either directly or indirectly, with business of the Group. However, the Company is capable of carrying on its business independently of, and at arm's length from, the businesses of China Merchants Capital Investment Co., Ltd. and First Eastern Investment Group. If conflict of interest arises on the part of Mr. LI, Mr. HONG, Mr. CHU, or Ms. KAN, as the case may be, they shall, pursuant to the Articles of Association of the Company, not vote or be counted in the quorum on the relevant resolution of the Board of Directors.

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

DIRECTORS' SERVICE CONTRACTS

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

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2013, 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 of shareholder	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	42,022,041	27.59%
China Merchants Steam Navigation Company Limited (Note 3)	Long position	Interest of controlled corporation	42,022,041	27.59%
China Merchants Holdings (Hong Kong) Company Limited (Note 1)	Long position	Interest of controlled corporation	42,022,041	27.59%
China Merchants Finance Holdings Company Limited (Note 2)	Long position	Interest of controlled corporation	42,022,041	27.59%
China Merchants Financial Services Limited (Note 3)	Long position	Interest of controlled corporation	38,855,507	25.51%
Good Image Limited	Long position	Beneficial owner	38,855,507	25.51%
Lazard Asset Management LLC	Long position	Investment manager	30,460,535	20.00%
China Asset Management Co., Ltd.	Long position	Investment manager	9,099,475	5.97%

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

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

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

Save as disclosed above, there was no person, other than a Director or chief executive of the Company, who 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 2013, 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 existing Investment Management Agreement entered into between the Company and the Investment Manager (the "**Existing Management Agreement**") on 18 October 2012 became effective on 1 January 2013 and is for a fixed term ending on 31 December 2015.

For the year ended 31 December 2013, the management fees which were calculated based on a fixed percentage on the value of the Group's assets as stipulated in the Existing Management Agreement totalling US$9,353,307 (2012: US$9,508,196) were paid or payable to the Investment Manager.

2. Brokerage Agreements

On 8 November 2010, China Merchants Industry Development (Shenzhen) Limited ("**CMID**"), a directly wholly-owned subsidiary of the Company entered into the brokerage agreement and supplemental brokerage agreement (the "**2010 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. On 24 October 2013, CMID renewed the 2010 Brokerage Agreements by entering into the brokerage agreement and supplemental brokerage agreement with CMS on the same terms as those set out in the 2010 Brokerage Agreements. On 24 October 2013, Shenzhen Tian Zheng Investment Co., Ltd. ("**Tian Zheng**"), an indirectly wholly-owned subsidiary of the Company, also entered into the brokerage agreement and supplemental brokerage agreement with CMS in relation to the securities brokerage services provided by CMS to Tian Zheng for a term of three years. 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 2013, no securities brokerage commission fee (2012: US$8,230) was paid or payable to CMS.

CONTINUING CONNECTED TRANSACTIONS (continued)

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 30 to the financial statements.

EVENTS AFTER THE REPORTING PERIOD

Details of significant events occurring after the reporting period are set out in note 29 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, 26 March 2014

CORPORATE GOVERNANCE

The Company is committed to maintaining high standards of corporate governance. The Board believes that good corporate governance practices are important to protect shareholders' interests and to promote investor confidence. The Company has complied with all the code provisions set out in Appendix 14 to the Listing Rules (Corporate Governance Code (the "**Code**") throughout the year under review, except for the deviations as stated below:

According to the Investment Management Agreement, the portfolio and day-to-day administration of the Company are handled by the Investment Manager. Meanwhile, except the qualified accountant whose remuneration package is determined and borne by the Investment Manager, the Company has no salaried employees. The Stock Exchange of Hong Kong Limited has granted a waiver to the Company for establishment of remuneration committee on condition that the Executive Directors and senior management of the Company will not receive any Directors' fee or emolument from the Company. Thus, no remuneration committee has been established by the Company. In addition, it is suitable for the Company to hold regular Board meeting twice a year at a minimum.

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

BOARD OF DIRECTORS

As at 31 December 2013, 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 33 to 38 of the Annual Report.

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

BOARD OF DIRECTORS (continued)

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

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

During the year under review, the Board had performed the above duties and approved the adoption of continuous disclosure policy and board diversity policy in order to enhance the corporate governance of the Company.

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:

BOARD OF DIRECTORS (continued)

	Attendance/number of regular meetings during the Director's term of office in 2013
Executive Directors:	
Mr. LI Yinquan *(Chairman)*	3/3
Mr. HONG Xiaoyuan	3/3
Mr. CHU Lap Lik, Victor	1/3
Ms. ZHOU Linda Lei	3/3
Mr. TSE Yue Kit	3/3
Non-executive Director:	
Mr. KE Shifeng	2/3
Independent Non-executive Directors:	
Mr. LIU Baojie	3/3
Mr. XIE Tao	3/3
Mr. ZHU Li	3/3
Mr. TSANG Wah Kwong	3/3
Alternate Director:	
Ms. KAN Ka Yee, Elizabeth *(alternate to Mr. CHU Lap Lik, Victor)*	2/3

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. LIU Baojie 1/1; Mr. XIE Tao 1/1; Mr. ZHU Li 1/1; Mr. TSANG Wah Kwong 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, Nomination Committee or Investment Committee may take independent professional advice if they so wish at the expense of the Company, as arranged by the Company Secretary.

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

BOARD OF DIRECTORS (continued)

Audit Committee

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

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

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

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

	Attendance/ number of meetings
Independent Non-executive Directors:	
Mr. TSANG Wah Kwong *(Chairman of the Audit Committee)*	2/2
Mr. XIE Tao	2/2
Mr. ZHU Li	2/2

BOARD OF DIRECTORS (continued)

Audit Committee (continued)

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

- reviewed and recommended the Board to approve the audit fee proposal for the year 2013;
- reviewed the interim report and the interim results announcement for the six months ended 30 June 2013;
- reviewed the audit plan for the year 2013 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 2012; and
- considered the internal controls assessment report prepared by the Company's independent auditor.

Nomination Committee and Appointment of Directors

The Board has established a Nomination Committee with specific terms of reference in accordance with the Code and comprises a majority of Independent Non-executive Directors. The terms of reference of the Nomination Committee are available on the Company's website. The Nomination Committee is responsible to review the structure, size and composition of the Board and make recommendations on any proposed changes to the Board to complement the Company's corporate strategy. It shall consider the suitability of a candidate to become Board member and assess the independence of Independent Non-executive Directors taking into account the independence requirements set out in Rule 3.13 of the Listing Rules. It is also provided with sufficient resources enabling it to perform its duties. Before its establishment, the role and function of the Nomination Committee were taken by the Board.

During the year under review, the Nomination Committee has resolved to recommend the renewal of appointment of Mr. KE Shifeng and Mr. LIU Baojie as Non-executive Director and Independent Non-executive Director of the Company, respectively, and held a meeting to review the structure, size and composition of the Board. The attendance of individual members of the Nomination Committee is as follows:

	Attendance/ number of meetings
Executive Director:	
Mr. LI Yinquan *(Chairman of the Nomination Committee)*	1/1
Independent Non-executive Directors:	
Mr. XIE Tao	1/1
Mr. ZHU Li	1/1

BOARD OF DIRECTORS (continued)

Nomination Committee and Appointment of Directors (continued)

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 ("**AGM**") of the Company, and shall then be eligible for re-election.

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

Investment Committee

The Board has established an Investment Committee, of which currently has four members (Mr. LI Yinquan, Mr. HONG Xiaoyuan, Mr. CHU Lap Lik, Victor and Ms. ZHOU Linda Lei), 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. All the Committee members are Executive Directors.

During the year under review, the Investment Committee has approved the disposal of the Company's entire holding of A shares of both CMB and IBC.

BOARD DIVERSITY POLICY

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

Summary of the Policy

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

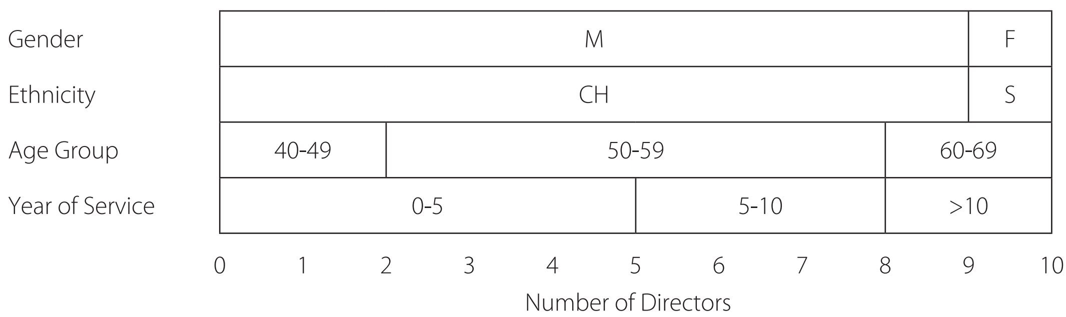
BOARD DIVERSITY POLICY (continued)

Measurable Objectives

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

Implementation

As at 31 December 2013, the Board's composition under major diversified perspectives was summarised as follows:



M – Male
F – Female
CH – Chinese
S – Singaporean

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.

TRAINING AND SUPPORT FOR DIRECTORS

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

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

	Type of CPD
Executive Directors:	
Mr. LI Yinquan *(Chairman)*	a,b,c
Mr. HONG Xiaoyuan	a,c
Mr. CHU Lap Lik, Victor	a,b,c
Ms. ZHOU Linda Lei	a,c
Mr. TSE Yue Kit	a,c
Non-executive Director:	
Mr. KE Shifeng	a,b,c
Independent Non-executive Directors:	
Mr. LIU Baojie	a,c
Mr. XIE Tao	a,c
Mr. ZHU Li	a,c
Mr. TSANG Wah Kwong	a,c
Alternate Director:	
Ms. KAN Ka Yee, Elizabeth *(alternate to Mr. CHU Lap Lik, Victor)*	a,c

Note:

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

b: giving talks at seminars, conferences, or forums

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

DIRECTORS' SECURITIES TRANSACTIONS

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

REMUNERATION OF DIRECTORS

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

The remuneration of the Directors is determined by the shareholders at the AGM of the Company. At the AGM of the Company held on 16 May 2013, it was resolved that the remuneration of the Directors for the year ended 31 December 2013 be fixed by the Board. All the Executive Directors did not receive any remuneration from the Company for the year ended 31 December 2013 (2012: Nil). The total remuneration payable to other Directors for the year ended 31 December 2013 is disclosed in note 9 to the financial statements.

AUDITOR'S REMUNERATION

The Company has appointed Deloitte Touche Tohmatsu as the Company's independent auditor. During the year under review, the fees paid or payable to the Company's independent auditor for audit services provided is US$168,277 and for non-audit services provided is US$52,524 which was mainly for the purpose of reviewing the internal control systems of the Company, and the circulars relating to renewal of the mandates for the proposed disposal of shares in CMB and IBC and voluntary cash offer to repurchase the shares of the Company.

FINANCIAL REPORTING

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

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

The statement of the independent auditor of the Company about their reporting responsibilities on the financial statements is set out in the Independent Auditor's Report on page 56.

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.

COMPANY SECRETARY

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

CONSTITUTIONAL DOCUMENTS

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

In light of the new Companies Ordinance (Chapter 622 of the Laws of Hong Kong) (the "**New CO**") came into effect on 3 March 2014, a special resolution will be proposed at the forthcoming AGM to approve the adoption of the new Articles of Association of the Company in order to bring it up to the date and in line with the requirements of the New CO.

SHAREHOLDERS' RIGHTS

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

Convening of General Meeting on Request

Shareholder(s) may request the Directors to convene an extraordinary general meeting ("**EGM**") pursuant to Section 113 of the Companies Ordinance (Chapter 32 of the Laws of Hong Kong) before 3 March 2014 and to call a general meeting pursuant to Sections 566 to 568 of the New CO from 3 March 2014 and onwards.

SHAREHOLDERS' RIGHT (continued)

Convening of General Meeting on Request (continued)

In accordance with Section 566 of the New CO, the Directors are required to call a general meeting if the Company has received requests to do so from members of the Company representing at least 5% of the total voting rights of all the members having a right to vote at general meeting. Such requests (a) must state the general nature of the business to be dealt with at the meeting; and (b) may include the text of a resolution that may properly be moved and is intended to be moved at the meeting. Such requests (a) may be sent to the Company in hard copy form (by depositing at the registered office of the Company at 1803 China Merchants Tower, Shun Tak Centre, 168-200 Connaught Road Central, Hong Kong for the attention of the Board) or in electronic form (by email: info@cmcdi.com.hk); and (b) must be authenticated by the person or persons making it. In accordance with Section 567 of the New CO, the Directors must call a meeting within 21 days after the date on which they become subject to the requirement under Section 566 of the New CO and such meeting must be held on a date not more than 28 days after the date of the notice convening the meeting.

Putting Forward Proposals at AGM/General Meeting

To put forward a resolution at an AGM, shareholders are requested to follow the requirements and procedures set out in Section 115A of the Companies Ordinance (Chapter 32 of the Laws of Hong Kong) before 3 March 2014 and Sections 615 and 616 of the New CO from 3 March 2014 and onwards.

Section 615 of the New CO provides that the Company must give notice of a resolution if it has received requests that it do so from (a) the members of the Company representing at least 2.5% of the total voting rights of all the members who have a right to vote on the resolution at the AGM to which the requests relate; or (b) at least 50 members who have a right to vote on the resolution at the AGM to which the requests relate. Such requests (a) may be sent to the Company in hard copy form (by depositing at the registered office of the Company at 1803 China Merchants Tower, Shun Tak Centre, 168-200 Connaught Road Central, Hong Kong for the attention of the Board) or in electronic form (by email: info@cmcdi.com.hk); (b) must identify the resolution of which notice is to be given; (c) must be authenticated by the person or persons making it; and (d) must be received by the Company not later than (i) 6 weeks before the AGM to which the requests relate; or (ii) if later, the time at which notice is given of that meeting. Section 616 of the New CO provides that the Company that is required under Section 615 of the New CO to give notice of a resolution must send a copy of it at the Company's own expense to each member of the Company entitled to receive notice of the AGM (a) in the same manner as the notice of the meeting; and (b) at the same time as, or as soon as reasonably practicable after, it gives notice of the meeting.

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

SHAREHOLDERS' RIGHT (continued)

Enquiries to the Board

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

INVESTOR RELATIONSHIP AND COMMUNICATION

The Company endeavours to maintain a high level of transparency when communicating with shareholders and the investment community at large. The Company is committed to maintaining an open and effective communication policy, and updates its shareholders and investors on relevant information on our business through general meetings, annual and interim reports, notices, announcements and circulars. The Company (through the Investment Manager) has also actively responded to the investors' queries by emails and held a number of meetings with shareholders and institutional investors on their requests throughout the year under review so as to discuss and explain the Company's investment strategies and hear their opinions. Shareholders may refer to the "Shareholders Communication Policy" that posted on the Company's website for more details.

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

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

INVESTOR RELATIONSHIP AND COMMUNICATION (continued)

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

	Attendance/Number of meetings		
	AGM held on 16 May 2013	**EGM held on 7 June 2013**	**EGM held on 5 December 2013**
Executive Directors:			
Mr. LI Yinquan *(Chairman)*	1/1	1/1	1/1
Mr. HONG Xiaoyuan	1/1	1/1	1/1
Mr. CHU Lap Lik, Victor	0/1	0/1	0/1
Ms. ZHOU Linda Lei	1/1	1/1	1/1
Mr. TSE Yue Kit	1/1	1/1	1/1
Non-executive Director:			
Mr. KE Shifeng	0/1	0/1	0/1
Independent Non-executive Directors:			
Mr. LIU Baojie	0/1	0/1	0/1
Mr. XIE Tao	0/1	0/1	0/1
Mr. ZHU Li	0/1	0/1	0/1
Mr. TSANG Wah Kwong	1/1	1/1	1/1
Alternate Director:			
Ms. KAN Ka Yee, Elizabeth *(alternate to Mr. CHU Lap Lik, Victor)*	1/1	1/1	1/1

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 58 to 109, which comprise the consolidated and Company's statements of financial position as at 31 December 2013, and the consolidated statement of profit or loss and other 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 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 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 2013 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu
Certified Public Accountants

Hong Kong
26 March 2014

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2013

	Notes	**2013** **US$**	2012 *US$*
Change in fair value of financial assets at fair value through profit or loss		**34,932,077**	23,636,644
Investment income	6	**23,558,016**	13,679,480
Other gains and losses		**1,184,040**	172,122
Administrative expenses		**(10,693,687)**	(11,789,508)
Share of results of associates	15	**(4,702,094)**	(1,411,813)
Profit before taxation	8	**44,278,352**	24,286,925
Taxation	11	**(9,440,386)**	(14,403,677)
Profit for the year attributable to owners of the Company		**34,837,966**	9,883,248
Other comprehensive income (loss)			
Items that will not be reclassified subsequently to profit or loss			
Exchange difference arising on translation		**14,353,991**	959,878
Share of change in translation reserve of associates		**623,714**	49,432
Item that may be reclassified subsequently to profit or loss			
Change in fair value of available-for-sale financial assets		**(16,129)**	(13,430)
Other comprehensive income for the year, net of tax		**14,961,576**	995,880
Total comprehensive income for the year		**49,799,542**	10,879,128
Profit for the year attributable to owners of the Company		**34,837,966**	9,883,248
Total comprehensive income for the year attributable to owners of the Company		**49,799,542**	10,879,128
Basic earnings per share	13	**0.224**	0.064

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2013

	Notes	2013 US$	2012 US$
Non-current assets			
Interests in associates	15	**17,158,887**	21,237,267
Financial assets at fair value through profit or loss	16	**310,640,112**	252,189,653
		327,798,999	273,426,920
Current assets			
Financial assets at fair value through profit or loss	16	**244,845,058**	236,147,975
Available-for-sale financial assets	17	**–**	713,268
Other receivables	19	**758,048**	709,793
Bank balances and cash	20	**27,253,376**	57,778,638
		272,856,482	295,349,674
Current liabilities			
Other payables	21	**24,467,197**	22,654,936
Taxation payable	22	**41,028**	3,943,887
		24,508,225	26,598,823
Net current assets		**248,348,257**	268,750,851
Total assets less current liabilities		**576,147,256**	542,177,771
Non-current liabilities			
Financial liabilities at fair value through profit or loss	23	**1,759,244**	1,192,063
Deferred taxation	24	**72,853,246**	62,583,346
		74,612,490	63,775,409
Net assets		**501,534,766**	478,402,362

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)

As at 31 December 2013

	Notes	2013 US$	2012 US$
Capital and reserves			
Share capital	25	**15,233,301**	15,834,342
Share premium and reserves		**255,864,016**	237,712,531
Retained profits		**230,437,449**	224,855,489
Equity attributable to owners of the Company		**501,534,766**	478,402,362
Net asset value per share	27	**3.292**	3.021

The consolidated financial statements on pages 58 to 109 were approved and authorised for issue by the Board of Directors on 26 March 2014 and are signed on its behalf by:

Mr. HONG Xiaoyuan
Director

Ms. ZHOU Linda Lei
Director

STATEMENT OF FINANCIAL POSITION

As at 31 December 2013

	Notes	2013 US$	2012 US$
Non-current assets			
Investments in subsidiaries	14	**30,211,265**	28,573,279
Financial assets at fair value through profit or loss	16	**59,172,300**	52,994,347
Amounts due from subsidiaries	18	**37,107,380**	36,825,730
		126,490,945	118,393,356
Current assets			
Amounts due from subsidiaries	18	**162,648,100**	189,553,092
Other receivables	19	**223,481**	25,891
Bank balances and cash	20	**3,088,545**	6,707,115
		165,960,126	196,286,098
Current liabilities			
Amounts due to subsidiaries	18	**5,694,311**	4,948,995
Other payables	21	**2,909,165**	3,110,713
Taxation payable	22	**–**	3,842,500
		8,603,476	11,902,208
Net current assets		**157,356,650**	184,383,890
Total assets less current liabilities		**283,847,595**	302,777,246
Non-current liabilities			
Financial liabilities at fair value through profit or loss	23	**1,759,244**	1,192,063
Deferred taxation	24	**4,387,356**	3,769,561
		6,146,600	4,961,624
Net assets		**277,700,995**	297,815,622
Capital and reserves			
Share capital	25	**15,233,301**	15,834,342
Share premium and reserves	26	**262,467,694**	281,981,280
Equity attributable to owners of the Company		**277,700,995**	297,815,622

Mr. HONG Xiaoyuan
Director

Ms. ZHOU Linda Lei
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2013

	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 2012	15,149,904	113,574,480	107,909,427	6,773,764	29,559	233,473,382	476,910,516
Profit for the year	–	–	–	–	–	9,883,248	9,883,248
Exchange difference on translation	–	–	959,878	–	–	–	959,878
Share of change in translation reserve of associates	–	–	49,432	–	–	–	49,432
Change in fair value of available-for-sale financial assets	–	–	–	–	(13,430)	–	(13,430)
Total comprehensive income (loss) for the year	–	–	1,009,310	–	(13,430)	9,883,248	10,879,128
2011 final and special dividends paid							
– Cash	–	–	–	–	–	(9,387,282)	(9,387,282)
– Scrip alternative	684,438	8,108,164	–	–	–	(8,792,602)	–
Transfer to general reserve	–	–	–	321,257	–	(321,257)	–
Balance at 31 December 2012	15,834,342	121,682,644	108,918,737	7,095,021	16,129	224,855,489	478,402,362
Balance at 1 January 2013	**15,834,342**	**121,682,644**	**108,918,737**	**7,095,021**	**16,129**	**224,855,489**	**478,402,362**
Profit for the year	**–**	**–**	**–**	**–**	**–**	**34,837,966**	**34,837,966**
Exchange difference on translation	**–**	**–**	**14,353,991**	**–**	**–**	**–**	**14,353,991**
Share of change in translation reserve of associates	**–**	**–**	**623,714**	**–**	**–**	**–**	**623,714**
Change in fair value of available-for-sale financial assets	**–**	**–**	**–**	**–**	**(16,129)**	**–**	**(16,129)**
Total comprehensive income (loss) for the year	**–**	**–**	**14,977,705**	**–**	**(16,129)**	**34,837,966**	**49,799,542**
Repurchases of ordinary shares	**(791,718)**	**–**	**–**	**–**	**–**	**(20,581,766)**	**(21,373,484)**
2012 final dividend paid							
– Cash	**–**	**–**	**–**	**–**	**–**	**(5,293,654)**	**(5,293,654)**
– Scrip alternative	**190,677**	**2,432,840**	**–**	**–**	**–**	**(2,623,517)**	**–**
Transfer to general reserve	**–**	**–**	**–**	**757,069**	**–**	**(757,069)**	**–**
Balance at 31 December 2013	**15,233,301**	**124,115,484**	**123,896,442**	**7,852,090**	**–**	**230,437,449**	**501,534,766**

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

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2013

	2013	2012
	US$	*US$*
OPERATING ACTIVITIES		
Profit before taxation	**44,278,352**	24,286,925
Adjustments for:		
Share of results of associates	**4,702,094**	1,411,813
Interest income	**(1,201,414)**	(1,692,195)
Dividend income from equity investments	**(22,356,602)**	(11,987,285)
Change in fair value of financial assets designated at fair value through profit or loss	**(34,936,376)**	(25,714,856)
Operating cash flows before movements in working capital	**(9,513,946)**	(13,695,598)
Increase in financial assets at fair value through profit or loss	**(17,620,917)**	(26,589,016)
Decrease in available-for-sale financial assets	**697,011**	–
Decrease in other receivables	**3,353**	69,001
Increase in other payables	**2,136,987**	1,158,537
Increase in financial liabilities at fair value through profit or loss	**58,073**	369,571
Cash used in operations	**(24,239,439)**	(38,687,505)
Interest received	**1,334,188**	2,764,520
Dividend received	**22,356,602**	11,987,285
Income taxes paid	**(4,476,016)**	(4,770,851)
NET CASH USED IN OPERATING ACTIVITIES	**(5,024,665)**	(28,706,551)
FINANCING ACTIVITIES		
Dividend paid	**(5,293,654)**	(9,387,282)
Repurchases of ordinary shares	**(21,373,484)**	–
NET CASH USED IN FINANCING ACTIVITIES	**(26,667,138)**	(9,387,282)
NET DECREASE IN CASH AND CASH EQUIVALENTS	**(31,691,803)**	(38,093,833)
CASH AND CASH EQUIVALENTS AS AT 1 JANUARY	**57,778,638**	95,824,723
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	**1,166,541**	47,748
CASH AND CASH EQUIVALENTS AS AT 31 DECEMBER	**27,253,376**	57,778,638

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 31 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 Hong Kong Financial Reporting Standards ("**HKFRSs**") and amendments issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**").

Amendments to HKFRSs	Annual improvements to HKFRSs 2009 – 2011 Cycle
Amendments to HKFRS 7	Disclosures – Offsetting financial assets and financial liabilities
Amendments to HKFRS 10, 11 and 12	Consolidated financial statements, joint arrangements and disclosure of interests in other entities: Transition guidance
HKFRS 10	Consolidated financial statements
HKFRS 11	Joint arrangements
HKFRS 12	Disclosure of interests in other entities
HKFRS 13	Fair value measurement
HKAS 27 (as revised in 2011)	Separate financial statements
HKAS 28 (as revised in 2011)	Investments in associates and joint ventures
Amendments to HKAS 1	Presentation of financial statements – Presentation of items of other comprehensive income

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

New and revised Standards on consolidation, joint arrangements, associates and disclosures

In the current year, the Group has applied for the first time the package of five standards on consolidation, joint arrangements, associates and disclosures comprising HKFRS 10 *Consolidated Financial Statements*, HKFRS 11 *Joint Arrangements*, HKFRS 12 *Disclosure of Interests in Other Entities*, HKAS 27 (as revised in 2011) *Separate Financial Statements* and HKAS 28 (as revised in 2011) *Investments in Associates and Joint Ventures*, together with the amendments to HKFRS 10, HKFRS 11 and HKFRS 12 regarding transitional guidance.

HKAS 27 (as revised in 2011) is not applicable to the Group as it deals only with separate financial statements.

The impact of the application of these standards is set out below.

Impact of the application of HKFRS 10

HKFRS 10 replaces the parts of HKAS 27 *Consolidated and Separate Financial Statements* that deal with consolidated financial statements and HK(SIC) Int-12 *Consolidation – Special Purpose Entities*. HKFRS 10 changes the definition of control such that an investor has control over an investee when (a) it has power over the investee, (b) it is exposed, or has rights, to variable returns from its involvement with the investee and (c) it has the ability to use its power to affect its returns. All three of these criteria must be met for an investor to have control over an investee. Previously, control was defined as the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Additional guidance has been included in HKFRS 10 to explain when an investor has control over an investee.

The application of HKFRS 10 in current year does not have material impact on the Group's financial position for the current and prior years.

Impact of the application of HKFRS 12

HKFRS 12 is a new disclosure standard and is applicable to entities that have interests in subsidiaries, joint arrangements, associates and/or unconsolidated structured entities. In general, the application of HKFRS 12 has resulted in more extensive disclosures in the consolidated financial statements (please see note 15 for details).

It is not applicable for other standards of the package to the Group.

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

HKFRS 13 *Fair Value Measurement*

The Group has applied HKFRS 13 for the first time in the current year. HKFRS 13 establishes a single source of guidance for, and disclosures about, fair value measurements. The scope of HKFRS 13 is broad: the fair value measurement requirements of HKFRS 13 apply to both financial instrument items and non-financial instrument items for which other HKFRSs require or permit fair value measurements and disclosures about fair value measurements, except for share-based payment transactions that are within the scope of HKFRS 2 *Share-based Payment*, leasing transactions that are within the scope of HKAS 17 *Leases*, and measurements that have some similarities to fair value but are not fair value (e.g. net realisable value for the purposes of measuring inventories or value in use for impairment assessment purposes).

HKFRS 13 defines the fair value of an asset as the price that would be received to sell an asset (or paid to transfer a liability, in the case of determining the fair value of a liability) in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions. Fair value under HKFRS 13 is an exit price regardless of whether that price is directly observable or estimated using another valuation technique. Also, HKFRS 13 includes extensive disclosure requirements.

HKFRS 13 requires prospective application. In accordance with the transitional provisions of HKFRS 13, the Group has not made any new disclosures required by HKFRS 13 for the 2012 comparative period (please see note 5 for the 2013 disclosures). Other than the additional disclosures, the application of HKFRS 13 has not had any material impact on the amounts recognised in the consolidated financial statements.

Amendments to HKAS 1 *Presentation of Items of Other Comprehensive Income*

The Group has applied the amendments to HKAS 1 *Presentation of Items of Other Comprehensive Income*. Upon the adoption of the amendments to HKAS 1, the Group's 'statement of comprehensive income' is renamed as the 'statement of profit or loss and other comprehensive income'. The amendments to HKAS 1 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements. Furthermore, the amendments to HKAS 1 require additional disclosures to be made in the other comprehensive income section such that items of other comprehensive income are grouped into two categories: (a) items that will not be reclassified subsequently to profit or loss and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis – the amendments do not change the option to present items of other comprehensive income either before tax or net of tax. The amendments have been applied retrospectively, and hence the presentation of items of other comprehensive income has been modified to reflect the changes. Other than the above mentioned presentation changes, the application of the amendments to HKAS 1 does not result in any impact on profit or loss, other comprehensive income and total comprehensive income.

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

2. APPLICATION OF NEW AND 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:

Amendments to HKFRSs	Annual improvements to HKFRSs 2010 – 2012 Cycle[2]
Amendments to HKFRSs	Annual improvements to HKFRSs 2011 – 2013 Cycle[2]
HKFRS 9	Financial instruments[3]
Amendments to HKFRS 9 and 7	Mandatory effective date of HKFRS 9 and transition disclosures[3]
Amendments to HKFRS 10, 12 and HKAS 27	Investment entities[1]
HKFRS 14	Regulatory deferral accounts[4]
Amendments to HKAS 19	Defined benefit plans: Employee contributions[2]
Amendments to HKAS 32	Financial instruments: Presentation – Offsetting financial assets and financial liabilities[1]
Amendments to HKAS 36	Recoverable amount disclosures for non-financial assets[1]
Amendments to HKAS 39	Novation of derivatives and continuation of hedge accounting[1]
HK(IFRIC) – Int 21	Levies[1]

1 Effective for annual periods beginning on or after 1 January 2014, with earlier application permitted.

2 Effective for annual periods beginning on or after 1 July 2014, with earlier application permitted.

3 Available for application – the mandatory effective date will be determined when the outstanding phases of HKFRS 9 are finalised.

4 Effective for first annual HKFRS financial statements beginning on or after 1 January 2016.

HKFRS 9 *Financial Instruments*

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

Key requirements of HKFRS 9 are described below:

- All recognised financial assets that are within the scope of HKAS 39 *Financial Instruments: Recognition and Measurement* are 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 accounting 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.

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

New and revised HKFRSs in issue but not yet effective (continued)

HKFRS 9 *Financial Instruments* (continued)

- With regard to the measurement of financial liabilities designated at fair value through profit or loss, HKFRS 9 requires that 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 of financial liabilities attributable to changes in the financial liabilities' credit risk are not subsequently reclassified to profit or loss. Under HKAS 39, the entire amount of the change in the fair value of the financial liability designated at fair value through profit or loss was presented in profit or loss.

Based on the Group's and the Company's financial assets and financial liabilities as at 31 December 2013, the management anticipates that the application of HKFRS 9 will have no material impact on amounts reported in respect of the Group's and the Company's financial assets and financial liabilities.

Amendments to HKFRS 10, 12 and HKAS 27 *Investment Entities*

The amendments to HKFRS 10 define an investment entity and require a reporting entity that meets the definition of an investment entity not to consolidate its subsidiaries but instead to measure its subsidiaries at fair value through profit or loss in its financial statements.

To qualify as an investment entity, a reporting entity is required to:

- obtain funds from one or more investors for the purpose of providing them with professional investment management services;
- commit to its investor(s) that its business purpose is to invest funds solely for returns from capital appreciation, investment income, or both; and
- measure and evaluate performance of substantially all of its investments on a fair value basis.

Consequential amendments have been made to HKFRS 12 and HKAS 27 to introduce new disclosure requirements for investment entities.

If the Company is qualified as an investment entity under the amendments to HKFRS 10, instead of consolidating its subsidiaries, the Company may be required to measure its interests in subsidiaries at fair value through profit or loss. The management is in the process of making an assessment of the impact of these amendments to the Group.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair values, as explained in the accounting policies set out below. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis.

The principal accounting policies are set out below.

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

Basis of consolidation

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

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

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

Investments in 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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Interests in associates (continued)

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 initially recognised 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 are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

The requirements of HKAS 39 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in an associate. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with HKAS 36 *Impairment of Assets* as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with HKAS 36 to the extent that the recoverable amount of the investment subsequently increases.

Financial instruments

Financial assets and financial liabilities are recognised 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. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. 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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (continued)

Financial assets (continued)

Effective interest method

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

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

Financial assets at FVTPL

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

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

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial 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 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 (including other receivables, bank balances and cash 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).

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (continued)

Financial assets (continued)

Loans and receivables (continued)

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

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).

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 affected.

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

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as default or delinquency in interest or principal payments; or
- it 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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (continued)

Financial assets (continued)

Impairment of financial assets (continued)

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.

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.

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.

Financial liabilities and equity instruments

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (continued)

Financial liabilities and equity instruments (continued)

The Group's financial liabilities are generally classified into financial liabilities designated at FVTPL and other financial liabilities. The accounting policies adopted in respect of financial liabilities 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 to the net carrying amount on initial recognition.

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 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 at FVTPL.

Financial liabilities at FVTPL are measured at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss includes any interest paid on the financial liabilities.

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.

Derecognition

Financial assets are derecognised only when the contractual 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, and only 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.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle that obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are measured at the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

Revenue recognition

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income is accrued on a timely basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 recorded in the respective functional currency 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.

Exchange differences on monetary items are recognised in profit or loss in the period in which they arise.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's operations are translated into the presentation currency of the Group (i.e. USD) using exchange rates prevailing at the end of 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 before taxation as reported in the consolidated statement of profit or loss and other comprehensive income because of items of income or expense that are taxable or deductible in other years and items of income or expense that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Taxation (continued)

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries 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.

The carrying amount of deferred tax assets is reviewed at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the assets to be recovered.

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

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case the current and deferred tax are 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 owners 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	
	2013	2012	**2013**	2012
	US$	*US$*	***US$***	*US$*
Financial assets				
Designated at FVTPL	**555,485,170**	488,337,628	**59,172,300**	52,994,347
Available-for-sale	**–**	713,268	**–**	–
Loans and receivables (including cash and cash equivalents)	**27,989,045**	58,466,044	**203,045,127**	240,364,394
Financial liabilities				
Amortised cost	**5,473,614**	3,661,353	**8,603,476**	8,059,708
Designated at FVTPL	**1,759,244**	1,192,063	**1,759,244**	1,192,063

Financial risk management objective and policies

The Group's major financial instruments include financial assets at FVTPL, 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	
	2013	2012
	US$	*US$*
Monetary assets		
USD	**2,932,015**	6,608,996
Hong Kong Dollar	**392,303**	144,639
Monetary liabilities		
USD	**4,244,749**	4,008,503
Hong Kong Dollar	**423,661**	294,273

	THE COMPANY	
	2013	2012
	US$	*US$*
Monetary assets		
USD	**13,517,715**	36,166,929
Hong Kong Dollar	**380,858**	124,856
Monetary liabilities		
USD	**9,939,060**	8,957,498
Hong Kong Dollar	**423,661**	294,273

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 result for the year would decrease/increase by US$66,000 (2012: US$130,000).

For the currency risk of the Company, if the exchange rate of RMB against USD had increased/decreased by 5%, the Company's result for the year would decrease/increase by US$179,000 (2012: US$1,364,000).

For the Group and the Company, no sensitivity analysis has been prepared between RMB and Hong Kong Dollar 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.

Interest rate sensitivity

No sensitivity analyses on cash flow interest rate risk is prepared as the Group's 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 as disclosed in note 16 and financial liabilities in note 23 which are designated 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% (2012: 20%) higher/lower, the Group's result for the year would increase/decrease by US$31,919,000 (2012: US$33,651,000). This is mainly attributable to the changes in fair values of the listed equity investments held by the Group.

If the fair value of the investments other than listed equity securities had been 20% (2012: 20%) higher/lower, the Group's result for the year would increase/decrease by US$49,724,000 (2012: US$37,827,000). 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 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 regard, the Directors consider that the Group's and the Company's credit risk on such authorised institutions is low.

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, the other financial liabilities 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 measurement of financial instruments

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

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

- 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 measurement of financial instruments (continued)

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

Financial assets	31 December 2013 US$	Fair value hierarchy	Valuation techniques	Significant unobservable input(s)	Range	Relationship of unobservable inputs to fair value	Increase(+)/ decrease(-) in carrying value of assets if 10% higher/lower of the unobservable inputs (Note 2) US$
Financial assets at FVTPL							
Listed equity securities classified as financial assets at FVTPL (Note 1)	**223,989,246**	Level 1	Quoted bid prices in active market	N/A	N/A	N/A	N/A
Unlisted equity securities and preferred equity classified as financial assets at FVTPL (Note 1)	**272,656,875**	Level 3	Market comparable companies	– Earnings multiples – Revenue multiples – Book value multiples	8.9x - 110.9x 1.0x - 5.9x 2.1x - 2.8x	The higher the multiples, the higher the fair value	+26,000,000/ -26,000,000
				– Discount for lack of marketability and specific risk	50%	The higher the discount rate, the lower the fair value	-54,000,000/ +54,000,000
Unlisted equity securities classified as financial assets at FVTPL (Note 1)	**20,761,370**	Level 3	Fund's net asset value	N/A	N/A	N/A	N/A
Unlisted equity securities classified as financial assets at FVTPL (Note 1)	**17,221,867**	Level 3	Recent transaction price	N/A	N/A	N/A	N/A
Unlisted equity securities classified as financial assets at FVTPL (Note 1)	**20,035,723**	Level 3	Sales and purchase agreements	N/A	N/A	N/A	N/A
Bond classified as financial assets at FVTPL (Note 1)	**820,089**	Level 3	Face value	N/A	N/A	N/A	N/A
Balance as at 31 December 2013	**555,485,170**						

Note 1: Financial assets at FVTPL represent those designated at FVTPL upon initial recognition.

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

Note 3: The analysis of financial liabilities is set out in note 23.

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

5. FINANCIAL INSTRUMENTS (CONTINUED)

Fair value measurement of financial instruments (continued)

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

	Level 1	Level 2	Level 3	2013 Total
	US$	***US$***	***US$***	***US$***
Financial assets at FVTPL				
Financial assets designated at FVTPL	**223,989,246**	**–**	**331,495,924**	**555,485,170**
Financial liabilities at FVTPL				
Financial liabilities designated at FVTPL	**–**	**–**	**1,759,244**	**1,759,244**

	Level 1	Level 2	Level 3	2012 Total
	US$	*US$*	*US$*	*US$*
Financial assets at FVTPL				
Financial assets designated at FVTPL	236,147,975	–	252,189,653	488,337,628
Available-for-sale financial assets				
Bonds	–	–	713,268	713,268
Total	236,147,975	–	252,902,921	489,050,896
Financial liabilities at FVTPL				
Financial liabilities designated at FVTPL	–	–	1,192,063	1,192,063
Total	–	–	1,192,063	1,192,063

5. FINANCIAL INSTRUMENTS (CONTINUED)

Fair value measurement of financial instruments (continued)

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

The following is the analysis of realised and unrealised gains (losses) on investments of the Group for the year ended 31 December 2013:

	2013 **US$**	2012 *US$*
Change in fair value of financial assets at FVTPL		
Listed investments		
Realised	**–**	(2,078,211)
Unrealised	**(33,456,240)**	45,498,978
Unlisted investments		
Realised	**(4,299)**	–
Unrealised	**68,392,616**	(19,784,123)
Total	**34,932,077**	23,636,644

Reconciliation of Level 3 fair value measurements of financial assets:

	Designated at FVTPL ***US$***	**Available-for-sale** ***US$***	**2013 Total** ***US$***
Opening balance	**252,189,653**	**713,268**	**252,902,921**
Gains or losses recognised in:			
Profit or loss – realised	**(7,288)**	**2,989**	**(4,299)**
Profit or loss – unrealised	**68,392,616**	**–**	**68,392,616**
Other comprehensive income	**–**	**(16,257)**	**(16,257)**
Exchange differences arising on translation	**7,564,615**	**–**	**7,564,615**
Purchases	**20,606,521**	**–**	**20,606,521**
Disposals	**(193)**	**(700,000)**	**(700,193)**
Return of capital	**(17,250,000)**	**–**	**(17,250,000)**
Closing balance	**331,495,924**	**–**	**331,495,924**

5. FINANCIAL INSTRUMENTS (CONTINUED)

Fair value measurement of financial instruments (continued)

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

Reconciliation of Level 3 fair value measurements of financial assets (continued):

	Designated at FVTPL *US$*	Available-for-sale *US$*	2012 Total *US$*
Opening balance	219,725,630	726,698	220,452,328
Gains or losses recognised in:			
Profit or loss – unrealised	(19,784,123)	–	(19,784,123)
Other comprehensive income	–	(13,430)	(13,430)
Exchange differences arising on translation	398,566	–	398,566
Purchases	51,849,580	–	51,849,580
Closing balance	252,189,653	713,268	252,902,921

Reconciliation of Level 3 fair value measurements of financial liabilities:

	2013 ***US$***	2012 *US$*
Designated at FVTPL		
Opening balance	**1,192,063**	1,268,441
Additions	**112,992**	427,590
Disposals	**–**	(51,010)
Change in fair value	**454,189**	(452,958)
Closing balance	**1,759,244**	1,192,063

Of the total gains for the year included in profit or loss, US$68,392,616 (2012: loss of US$19,784,123) relates to financial assets designated at FVTPL categorised in Level 3 held at the end of the reporting period. Fair value gains or losses on financial assets designated at FVTPL are included in "Change in fair value of financial assets at fair value through profit or loss".

Included in other comprehensive income is a loss of US$16,257 (2012: US$13,430) relating to available-for-sale financial assets held until maturity for the reporting period and is reported as a movement in available-for-sale financial assets reserve.

5. FINANCIAL INSTRUMENTS (CONTINUED)

Fair value measurement of financial instruments (continued)

Fair value measurements and valuation processes

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

6. INVESTMENT INCOME

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

	THE GROUP	
	2013	2012
	US$	*US$*
Interest income on		
Bank deposits	**1,167,357**	1,651,595
Available-for-sale financial assets – listed	**34,057**	40,600
	1,201,414	1,692,195
Dividend income on financial assets designated at FVTPL		
Listed investments	**10,616,894**	6,613,938
Unlisted investments	**11,739,708**	5,373,347
	22,356,602	11,987,285
Total	**23,558,016**	13,679,480

6. INVESTMENT INCOME (CONTINUED)

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

	THE GROUP	
	2013	2012
	US$	*US$*
Available-for-sale financial assets	**34,057**	40,600
Loans and receivables (including bank balances and cash)	**1,167,357**	1,651,595
Total interest income for financial assets not designated at FVTPL	**1,201,414**	1,692,195
Investment income earned on financial assets designated at FVTPL	**22,356,602**	11,987,285
Total	**23,558,016**	13,679,480

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, agriculture, medical and pharmaceutical, real estate and other types of investing activities is 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, agriculture, medical and pharmaceutical, real estate activities and other types of investing activities.

7. SEGMENTAL INFORMATION (CONTINUED)

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 2013

	Financial services US$	Culture and media US$	Manufacturing US$	Information technology US$	Others US$	Total US$
Change in investment value	(24,091,916)	63,701,151	(8,594,543)	(6,391,165)	5,606,456	30,229,983
Dividend income on financial assets designated at FVTPL	20,221,357	1,542,646	–	538,921	53,678	22,356,602
Interest income from available-for-sale financial assets	–	–	–	–	34,057	34,057
Other gains and losses	–	98,912	–	520,511	–	619,423
Segment (loss) profit	(3,870,559)	65,342,709	(8,594,543)	(5,331,733)	5,694,191	53,240,065
Unallocated:						
– Administrative expenses						(10,693,687)
– Interest income on bank deposits						1,167,357
– Other gains and losses						564,617
Profit before taxation						44,278,352

7. SEGMENTAL INFORMATION (CONTINUED)

For the year ended 31 December 2012

	Financial services *US$*	Culture and media *US$*	Manufacturing *US$*	Information technology *US$*	Others *US$*	Total *US$*
Change in investment value	69,050,900	(41,040,366)	(10,507,352)	4,563,169	158,480	22,224,831
Dividend income on financial assets designated at FVTPL	10,620,428	1,366,639	–	–	218	11,987,285
Interest income from available-for-sale financial assets	–	–	–	–	40,600	40,600
Other gains and losses	–	143,559	–	4,288	–	147,847
Segment profit (loss)	79,671,328	(39,530,168)	(10,507,352)	4,567,457	199,298	34,400,563
Unallocated:						
– Administrative expenses						(11,789,508)
– Interest income on bank deposits						1,651,595
– Other gains and losses						24,275
Profit before taxation						24,286,925

Segment profit (loss) represents the change in investment value (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 purposes of resources allocation and performance assessment. No separate segment revenue (i.e. investment income) is disclosed as it had been presented in the computation of segment profit (loss).

7. SEGMENTAL INFORMATION (CONTINUED)

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

	2013	2012
	US$	*US$*
Segment assets		
Financial services	**348,162,186**	347,435,860
Culture and media	**149,151,488**	96,602,886
Manufacturing	**30,066,521**	37,578,686
Information technology	**15,434,400**	21,222,433
Others	**30,293,067**	7,911,903
Total segment assets	**573,107,662**	510,751,768
Unallocated	**27,547,819**	58,024,826
Consolidated assets	**600,655,481**	568,776,594
Segment liabilities		
Financial services	**5,718**	5,654
Culture and media	**1,029,484**	556,780
Manufacturing	**172,263**	181,422
Information technology	**221,834**	325,149
Others	**329,945**	123,058
Total segment liabilities	**1,759,244**	1,192,063
Unallocated	**97,361,471**	89,182,169
Consolidated liabilities	**99,120,715**	90,374,232

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

All assets are allocated to reportable segments other than certain 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. PROFIT BEFORE TAXATION

	THE GROUP	
	2013	2012
	US$	*US$*
Profit before taxation has been arrived at after charging (crediting):		
Auditor's remuneration	**182,591**	135,724
Net foreign exchange gains	**(76,627)**	(24,275)
Investment Manager's management fee	**9,353,307**	9,508,196
Directors' fees	**134,119**	134,090
Share of tax of associates (included in share of results of associates)	**(1,299,778)**	(114,674)

9. DIRECTORS' EMOLUMENTS

The Group has no chief executives and the Directors' fees paid or payable to each of the 11 (2012: 12) Directors were as follows:

	THE GROUP	
	2013	2012
	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	
	2013	2012
	US$	*US$*
Non-executive Directors:		
Mr. KE Shifeng	**25,792**	25,787
Independent Non-executive Directors:		
Mr. LIU Baojie	**25,792**	25,787
Mr. XIE Tao	**25,792**	25,787
Mr. ZHU Li	**25,792**	25,787
Mr. TSANG Wah Kwong*	**30,951**	9,282
Mr. LI Kai Cheong, Samson#	**Not applicable**	21,660
	108,327	108,303
Total	**134,119**	134,090

* The Director was appointed during the year 2012.

\# The Director resigned during the year 2012.

10. EMPLOYEES' EMOLUMENTS

The five (2012: six) 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 for the year comprises:

	THE GROUP	
	2013	2012
	US$	*US$*
The Company and its subsidiaries		
Current tax:		
PRC Enterprise Income Tax	**(893,739)**	(4,913,290)
Deferred taxation (note 24)		
Current year	**(8,546,647)**	(9,490,387)
Total	**(9,440,386)**	(14,403,677)

Hong Kong Profits Tax is calculated at 16.5% (2012: 16.5%) on the estimated assessable profits for the year. PRC Enterprise Income Tax in the PRC is calculated at the rates prevailing in the relevant regions.

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

11. TAXATION (CONTINUED)

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

	2013	2012
	US$	*US$*
Profit before taxation	**44,278,352**	24,286,925
Share of results of associates	**4,702,094**	1,411,813
Profit before taxation attributable to the Company and its subsidiaries	**48,980,446**	25,698,738
Tax at the domestic income tax rate of 25% (2012: 25%) (Note)	**(12,245,111)**	(6,424,685)
Tax effect of expenses not deductible for tax purpose	**(2,598,830)**	(2,946,750)
Tax effect of income not taxable for tax purpose	**5,659,616**	3,167,490
Tax effect of tax losses/deductible temporary differences not recognised	**(1,675)**	(2,170)
Effect of different tax rates of the Company and its subsidiaries operating in other regions in the PRC	**942,420**	1,866,081
Effect of different tax rate applied for deferred tax liability recognised for the year	**(740,864)**	(1,149,391)
Dividend withholding taxation in the PRC	**(455,942)**	(8,914,252)
Taxation	**(9,440,386)**	(14,403,677)

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

12. DIVIDENDS

Subsequent to the end of the reporting period, a final dividend of US$0.06 per share (2012: US$0.05) in respect of the year ended 31 December 2013 has been proposed by the Directors and is subject to approval by the shareholders at the forthcoming annual general meeting.

A cash dividend of US$5,293,654 (2012: US$9,387,282) was paid and a total number of 1,906,767 (2012: 6,844,381) scrip shares were allotted and issued at the price of HK$10.732 (2012: HK$9.956) on 31 July 2013 (2012: 31 July 2012) by the Company for the year ended 31 December 2012.

13. BASIC EARNINGS PER SHARE

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

	THE GROUP	
	2013	2012
Profit for the purpose of basic earnings per share (US$)	**34,837,966**	9,883,248
Weighted average number of ordinary shares for the purpose of basic earnings per share	**155,200,176**	154,350,861
Basic earnings per share (US$)	**0.224**	0.064

All 1,906,767 (2012: 6,844,381) scrip shares allotted during the year have been issued before the year end as described in note 12 above. No diluted earnings per share were noted at both years as there were no dilutive potential shares outstanding during both years.

14. INVESTMENTS IN SUBSIDIARIES

	THE COMPANY	
	2013	2012
	US$	*US$*
Unlisted shares, at cost	**10,000,007**	10,000,007
Deemed capital contribution through interest-free loans	**20,211,258**	18,573,272
Total	**30,211,265**	28,573,279

Particulars of the Company's principal subsidiaries at 31 December 2013 are set out in note 31.

15. INTERESTS IN ASSOCIATES

	THE GROUP	
	2013	2012
	US$	*US$*
Cost of unlisted interests in associates	**11,965,207**	16,452,455
Share of post-acquisition results, net of dividends received	**1,513,531**	1,015,521
Share of exchange reserve	**3,680,149**	3,769,291
	17,158,887	21,237,267
Amounts due from associates	**6,486,055**	6,486,055
Allowance on amounts due from associates	**(6,486,055)**	(6,486,055)
	–	–
Total	**17,158,887**	21,237,267

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

As at 31 December 2013 and 2012, the Group had investments in the following associates:

Name of company	**Place of incorporation/ registration and operation**	**Class of share held**	**Principal activities**	**2013 Proportion of nominal value of issued capital/ registered capital held by the Group**	2012 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 (Note)	BVI/PRC	Ordinary	Property investment	**N/A**	35%
Shandong Jinbao Electronics Co., Ltd.	PRC/PRC	Registered capital	Manufacturing electronics products	**25.91%**	25.91%

Note: Hansen Enterprises Limited was deregistered during the year 2013.

15. INTERESTS IN ASSOCIATES (CONTINUED)

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

The associate is accounted for using the equity method in these consolidated financial statements.

Shandong Jinbao Electronics Co., Ltd.

	2013	2012
	US$	*US$*
Current assets	**276,780,208**	267,329,296
Non-current assets	**118,655,361**	119,351,197
Current liabilities	**(311,370,310)**	(288,624,078)
Non-current liabilities	**(16,685,404)**	(14,678,540)
Net assets	**67,379,855**	83,377,875
Group's share of net assets of associates	**17,158,887**	21,237,267
Turnover	**257,652,187**	311,982,313
Loss for the year	**(18,445,525)**	(6,682,259)
Other comprehensive loss for the year	**(153,993)**	(26,047)
Total comprehensive loss for the year	**(18,599,518)**	(6,708,306)
Dividends received from the associate during the year	**–**	265,486

Aggregate information of associates that are not individually material

	2013	2012
	US$	*US$*
Group's share of profit (loss) for the year	**680,552**	(1,781,679)

15. INTERESTS IN ASSOCIATES (CONTINUED)

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

	2013	2012
	US$	*US$*
Unrecognised share of profits (losses) for the year	**680,552**	(1,781,679)
Accumulated unrecognised share of losses of associates	**(875,147)**	(3,583,057)

16. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	THE GROUP	
	2013	2012
	US$	*US$*
Equity and debt securities designated at FVTPL:		
– listed equities in PRC (Note a)	**223,989,246**	236,147,975
– unlisted equities (Note b)	**319,615,835**	225,908,364
– unlisted preferred equity (Note b)	**11,060,000**	25,280,000
– bond (Note b)	**820,089**	1,001,289
Total	**555,485,170**	488,337,628
Analysed to reporting purposes as		
Current assets	**244,845,058**	236,147,975
Non-current assets	**310,640,112**	252,189,653
Total	**555,485,170**	488,337,628

The Group's sale proceeds from disposal of direct investment in 2013 was nil (2012: US$23,182,351).

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

	THE COMPANY	
	2013	2012
	US$	*US$*
Equity securities:		
– unlisted (Note b)	**59,172,300**	52,994,347

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) As at 31 December 2013, fair value of unlisted equities amounted to US$37,257,590 (2012: US$4,772,890) was arrived at by reference to their recent transaction price or sales and purchase agreements prior to the year end. For unlisted investments with no recent transactions or sales and purchase agreements noted, their fair values were arrived at on the basis of valuations carried out by an independent valuer not connected with the Group. Determination of fair value is based on the best information available in the circumstances and includes appropriate risk adjustments for lack of marketability. Factors considered in determining the fair value of these investments include multiples of comparable companies listed on stock exchanges. Fair value of the bond was arrived at by reference to its face value.

THE GROUP

Particulars of the Group's investment portfolio which exceed 10% of the assets of the Group at 31 December 2013 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**	**2013 Percentage of equity held by the Group**	2012 Percentage of equity held by the Group
China Merchants Bank Co., Ltd.	PRC	A shares	**0.25%**	0.25%
Industrial Bank Co., Ltd.	PRC	A shares	**0.35%**	0.41%
China Credit Trust Co., Ltd.	PRC	Paid up capital	**6.9369%**	6.9369%

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

THE COMPANY

Particulars of the Company's investment portfolio which exceeds 10% of the assets of the Company at 31 December 2013 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**	**2013 Percentage of equity held by the Company**	2012 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	
	2013	2012
	US$	*US$*
Quoted debt securities – available-for-sale (Note)	**–**	713,268

Note: The debt securities matured during the year.

18. AMOUNTS DUE FROM (TO) SUBSIDIARIES

	THE COMPANY	
	2013	2012
	US$	*US$*
Amounts due from subsidiaries	**216,278,445**	245,012,895
Less: Allowance on amounts due from subsidiaries	**(16,522,965)**	(18,634,073)
Total	**199,755,480**	226,378,822
Analysis of amounts due from subsidiaries		
Current	**162,648,100**	189,553,092
Non-current	**37,107,380**	36,825,730
Total	**199,755,480**	226,378,822
Amounts due to subsidiaries	**5,694,311**	4,948,995

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

18. AMOUNTS DUE FROM (TO) SUBSIDIARIES (CONTINUED)

	THE COMPANY	
	2013	2012
	US$	*US$*
Allowance on amounts due from subsidiaries at 1 January and 31 December	**16,522,965**	18,634,073

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 are with good quality as they have the repayment ability to settle the outstanding amounts.

19. OTHER RECEIVABLES

	THE GROUP	
	2013	2012
	US$	*US$*
Dividend receivable from associates	**463,605**	463,605
Interest receivable	**70,300**	203,073
Other receivables	**224,143**	43,115
Total	**758,048**	709,793

	THE COMPANY	
	2013	2012
	US$	*US$*
Interest receivable	**–**	3,504
Other receivables	**223,481**	22,387
Total	**223,481**	25,891

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$24,149,329 (2012: US$51,044,923) which is denominated in RMB.

21. OTHER PAYABLES

THE GROUP AND THE COMPANY

Other payables mainly comprise management fee payable to China Merchants China Investment Management Limited ("**Investment Manager**") as disclosed in note 30 and business tax payable of US$18,993,583 (2012: US$18,993,583) arose from disposal of listed equity securities.

22. TAXATION PAYABLE

THE GROUP AND THE COMPANY

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 GROUP AND THE COMPANY

The financial liabilities designated at FVTPL as at 31 December 2013 were related to the sub-participation agreements (the "**Sub-participation Agreements**") entered into between the Company and the participants in respect of the investments by the Group in 北京銀廣通廣告有限公司(Unibank Media Group Inc.), 武漢日新科技股份有限公司(Wuhan Rixin Technology Co., Ltd.), 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)), 江蘇華爾石英材料股份有限公司(Jiangsu Huaer Quartz Materials 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.), 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.), 天利半導體(深圳)有限公司(Teralane Semiconductor (Shenzhen) Co., Ltd.), 華勁集團股份有限公司(Hwagain Group Co., Ltd.), 新疆承天農牧業發展股份有限公司(Xinjiang Chengtian Agriculture & Animal Husbandry Development Co., Ltd.), 天翼視訊傳媒有限公司(Esurfing Media Co., Ltd.) and 南京聖和藥業有限公司(Nanjing Sanhome Pharmaceutical 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 following is the deferred tax liability recognised by the Group and movements thereon during the current and prior years:

		THE GROUP	
	Capital gains for investments	**Undistributed earnings of PRC subsidiaries**	**Total**
	US$	***US$***	***US$***
Balance at 1 January 2012	52,953,100	–	52,953,100
Charge to profit or loss for the year	792,675	8,697,712	9,490,387
Exchange differences	139,859	–	139,859
Balance at 31 December 2012	**53,885,634**	**8,697,712**	**62,583,346**
Charge to profit or loss for the year	**6,751,890**	**1,794,757**	**8,546,647**
Exchange differences	**1,723,253**	**–**	**1,723,253**
Balance at 31 December 2013	**62,360,777**	**10,492,469**	**72,853,246**

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

THE COMPANY

The Company's deferred tax liability is related 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	
	2013	2012
	US$	*US$*
Balance at 1 January	**3,769,561**	2,530,559
Charge to profit or loss for the year	**617,795**	1,239,002
Balance at 31 December	**4,387,356**	3,769,561

24. DEFERRED TAXATION (CONTINUED)

THE COMPANY (Continued)

At the end of the reporting period, the Company had estimated unused tax losses of US$75,355 (2012: US$75,351) 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 2012, 1 January and 31 December 2013	**300,000,000**	**30,000,000**
Issued and fully paid:		
At 1 January 2012	151,499,036	15,149,904
Issue of ordinary shares	6,844,381	684,438
At 31 December 2012 and 1 January 2013	**158,343,417**	**15,834,342**
Repurchases of ordinary shares	**(7,917,171)**	**(791,718)**
Issue of ordinary shares	**1,906,767**	**190,677**
At 31 December 2013	**152,333,013**	**15,233,301**

A total number of 7,917,171 ordinary shares of US$0.10 each in issue were repurchased at the price of HK$20.94 per share and were cancelled by the Company on 3 July 2013 pursuant to a voluntary cash offer approved by the shareholders at an extraordinary general meeting held on 7 June 2013. Details of the voluntary cash offer are set out in the Company's circular dated 13 May 2013.

A total number of 1,906,767 (2012: 6,844,381) ordinary shares of US$0.10 each were allotted and issued at the price of HK$10.732 (2012: HK$9.956) on 31 July 2013 (2012: 31 July 2012) with an amount of US$2,623,517 (2012: US$8,792,602) by the Company to satisfy the partial payment of the 2012 final dividend of US$7,917,171 (2012: final and special dividends of US$18,179,884). These shares rank pari passu in all respects with other shares in issue.

26. SHARE PREMIUM AND RESERVES

THE COMPANY

	Share premium	Accumulated profits	Total
	US$	*US$*	*US$*
Balance at 1 January 2012	113,574,480	183,024,716	296,599,196
Loss for the year	–	(4,546,196)	(4,546,196)
2011 final and special dividends paid			
– Cash	–	(9,387,282)	(9,387,282)
– Scrip alternative	8,108,164	(8,792,602)	(684,438)
Balance at 1 January 2013	**121,682,644**	**160,298,636**	**281,981,280**
Profit for the year	**–**	**6,552,511**	**6,552,511**
Repurchases of ordinary shares	**–**	**(20,581,766)**	**(20,581,766)**
2012 final dividend paid			
– Cash	**–**	**(5,293,654)**	**(5,293,654)**
– Scrip alternative	**2,432,840**	**(2,623,517)**	**(190,677)**
Balance at 31 December 2013	**124,115,484**	**138,352,210**	**262,467,694**

27. NET ASSET VALUE PER SHARE

The calculation of the net asset value per share at the end of the reporting period is based on the net assets of US$501,534,766 (2012: US$478,402,362) and 152,333,013 ordinary shares (2012: 158,343,417 ordinary shares) of US$0.10 each in issue at 31 December 2013.

28. CAPITAL COMMITMENTS

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

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$31.56 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 2013, the Group has injected RMB140.80 million, equivalent to approximately US$21.85 million (2012: RMB120.17 million, equivalent to approximately US$18.50 million) into China Media Investment and classified the investment as a financial asset at FVTPL under non-current assets.

29. EVENTS AFTER THE REPORTING PERIOD

(a) On 15 January 2014, the Group and Teralane Semiconductor (Shenzhen) Co., Ltd. ("**Teralane Semiconductor**") entered into a supplemental agreement whereby the Group agreed not to exercise its right to convert the convertible bonds with principal amount of RMB5 million (the "**Convertible Bonds**") into equity interest of Teralane Semiconductor upon maturity of the Convertible Bonds. A total amount of RMB6.2 million, being the aggregate of the principal amount and accrued interest on the Convertible Bonds for the past two years, shall be paid by Teralane Semiconductor in installments on or before 30 June 2014, together with any interest resulting from the late payment of the principal amount.

(b) In January 2014, the Group disposed of 8,000,000 A shares of China Merchants Bank Co., Ltd. for net proceeds of RMB84.73 million (equivalent to approximately US$13.88 million).

(c) On 26 February 2014, the Group made a further cash injection of RMB12.57 million (equivalent to approximately US$2.05 million) into China Media Investment.

30. 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$9,353,307 (2012: US$9,508,196). 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).

The amount due to the Investment Manager included in other payables in the statements of financial position as at 31 December 2013 was US$2,485,504 (2012: US$2,508,433). Amount due to the Investment Manager is unsecured, interest free and is repayable on demand.

(b) No securities brokerage commission fee (2012: US$8,230) was 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).

(c) 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$165,069, US$212,002 and US$22,005 respectively (2012: US$109,622, US$143,726 and US$14,942 respectively). Moreover, the financial liability of the Group with Mr. WU Huifeng, a Director of the Investment Manager and resigned on 30 May 2013, was US$162,310 (2012: US$120,804). The financial liability of the Group with Mr. TSIM Tak Chee, a Director of the Investment Manager and appointed on 30 May 2013, was US$12,896.

30. RELATED PARTY TRANSACTIONS (CONTINUED)

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

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

31. PARTICULARS OF PRINCIPAL SUBSIDIARIES

Particulars of all principal subsidiaries at 31 December 2013 and 2012, 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	Inactive	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)

31. PARTICULARS OF PRINCIPAL SUBSIDIARIES (CONTINUED)

Name	Place of incorporation/ registration and operation	Principal activities	Particulars of issued share capital
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)
Xinjiang Tian Hong Equity Investment Co., Ltd.	PRC/PRC	Investment holding	Paid up capital of RMB30,000,000 (Limited liability company)

None of the subsidiaries had any debt securities subsisting at 31 December 2013 and 2012 or at any time during the year.

32. 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 notes 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.

FINANCIAL SUMMARY

CONSOLIDATED RESULTS

	For the year ended 31 December				
	2009	2010	2011	2012	**2013**
	US$	*US$*	*US$*	*US$*	***US$***
Investment income	8,440,088	13,088,836	17,330,254	13,679,480	**23,558,016**
Profit (loss) from operations	366,023,519	(153,508,681)	(17,678,263)	25,698,738	**48,980,446**
Share of results of associates	1,556,589	2,203,129	58,112	(1,411,813)	**(4,702,094)**
Gain on deemed disposal of associate	–	2,523,001	–	–	**–**
Taxation	(103,974,484)	36,723,056	(2,207,479)	(14,403,677)	**(9,440,386)**
Profit (loss) attributable to owners of the Company	263,605,624	(112,059,495)	(19,827,630)	9,883,248	**34,837,966**

CONSOLIDATED ASSETS AND LIABILITIES

	As at 31 December				
	2009	2010	2011	2012	**2013**
	US$	*US$*	*US$*	*US$*	***US$***
Total assets	834,608,234	602,035,215	556,181,804	568,776,594	**600,655,481**
Total liabilities	(236,537,902)	(114,628,974)	(79,271,288)	(90,374,232)	**(99,120,715)**
Net assets	598,070,332	487,406,241	476,910,516	478,402,362	**501,534,766**