China Merchants China Direct Investments Limited
(Incorporated in Hong Kong with limited liability)
(Stock Code: 133)

CREATING VALUE *In* CHINA

ANNUAL REPORT 2017

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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors
Mr. HONG Xiaoyuan *(Chairman)*
Mr. CHU Lap Lik, Victor
Mr. WANG Xiaoding
Mr. TSE Yue Kit
Ms. KAN Ka Yee, Elizabeth
(alternate to Mr. CHU Lap Lik, Victor)

Non-executive Directors
Mr. KE Shifeng
Mr. ZHANG Rizhong

Independent Non-executive Directors
Mr. LIU Baojie
Mr. TSANG Wah Kwong
Dr. LI Fang

INVESTMENT COMMITTEE

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

AUDIT COMMITTEE

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

NOMINATION COMMITTEE

Mr. HONG Xiaoyuan
Mr. TSANG Wah Kwong
Dr. LI Fang

COMPANY SECRETARY

Mr. LEUNG Chong Shun

INVESTMENT MANAGER

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

AUDITOR

Deloitte Touche Tohmatsu

LEGAL ADVISERS

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

PRINCIPAL BANKERS

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

SHARE REGISTRAR

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

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

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

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

Mr. HONG Xiaoyuan
Chairman

CHAIRMAN'S STATEMENT

The board of directors (the "**Board**") announces that the audited consolidated net asset value of China Merchants China Direct Investments Limited (the "**Company**") and its subsidiaries (together, the "**Group**") as of 31 December 2017 amounted to US$705.63 million, representing an increase of 25.70% compared to US$561.32 million in 2016. The net asset value per share was US$4.632, representing the same percentage increase of 25.70% compared to US$3.685 in 2016. The Group's audited consolidated profit after taxation for 2017 was US$117.90 million, while the audited consolidated loss for the same period last year was US$15.60 million.

The Board recommended the payment of a final dividend of US$0.06 per share for the year 2017. As there were no interim dividends during 2017, total dividends payable for the year 2017 were also US$0.06 per share, the same as last year.

In 2017, the global economy demonstrated a general trend of recovery. In particular, under the economic policies promulgated by the Trump administration, which emphasise job creation and wealth enhancement, the US economy has shown marked improvement as compared to 2016, with the economic growth rate in 2017 above the long-term growth rate of 2% for the first time in three years. Economies in the Eurozone generally benefitted from an increase in individual consumption, a decline in the unemployment rate and an acceleration of investment growth, thus the rate of economic growth in 2017 was significantly better than expected. During 2017, a year in which supply-side structural reforms were further advanced, China's economy demonstrated persistent growth. Since the 18th National Congress of the Communist Party of China (NCCPC), the average annual growth rate of China's economy has been over 7%, which is considerably higher than the average rate of growth globally and for developing economies, which were 2.5% and 4% during the same period, respectively. Looking back on 2017 in review, the national economy was better than expected, with steady improvement. As the economy continues to unleash its vitality, energy and potential, along with significant enhancements in stability, coordination and sustainability, it has seen a stable and healthy evolution. According to a preliminary report by the National Bureau of Statistics, the Gross Domestic Product (GDP) of China for 2017 exceeded RMB82 trillion, representing an increase of 6.9% over the previous year in terms of comparable prices, and consumption was the major driver for economic growth. Final consumption expenditures contributed 58.8% of GDP growth, which was 26.7% higher than the contribution from total capital formation. The yearly value added by the country's larger industrial enterprises actually increased by 6.6% over the previous year, and was 0.6% higher than last year. The Consumer Price Index (CPI) of China for the year rose by 1.6% year-over-year, down 0.4% as compared to last year.

In 2017, the A shares market of China showed a slow uptrend. Following a downward adjustment from April to May, the SSE Composite Index climbed slowly and steadily to 3450 points at its highest level of the year, but subsequently dropped and finally closed at 3307 points at the end of 2017, which was 6.56% higher than that at the end of 2016. In 2017, the Hong Kong stock market generally experienced a repeated upward trend. The Hang Seng Index increased by approximately 8000 points throughout the year, and finally closed at 29919 points at the end of 2017, representing a significant increase of 35.99% as compared to the end of 2016.

At the end of 2017, the Group's total holdings in investment projects amounted to US$824.96 million (US$642.65 million at the end of 2016), accounting for 94.52% of the Group's total asset value and representing an increase of US$182.31 million. This was largely due to a significant net increase in the fair value of investment projects, as well as an increase in the Renminbi exchange rate. Meanwhile, cash was US$47.77 million, accounting for 5.47% of the total asset value of the Group.

In 2017, the Investment Manager actively sought new investment opportunities, with intensive due diligence and the screening of many prospects, and consequently the Group replaced one investment project in and added a new investment project to the culture, media and consumption portfolio in 2017 – as it completed the replacement of an unlisted equity interest in Esurfing Media Co., Ltd. with the stock of Besttone Holding Co., Ltd., a Shanghai-listed company, in the amount of US$15.10 million, and made a new investment in the amount of US$30.43 million in Qinghai Provincial Qinghai Lake Tourism Group Co., Ltd. In addition, in order to strengthen its presence in industries related to information technology, and in the field of artificial intelligence (AI) in particular, the Group entered into an investment agreement with Ningbo Meishan Free Trade Port Area Jiangmen Venture Capital LLP, an AI-related venture capital fund, with an investment amount of US$4.74 million.

In 2017, according to market conditions, the Group continued to dispose of approximately 20 million A shares of Industrial Bank Co., Ltd. for net proceeds of US$49.02 million, so as to increase its working capital. In addition, due to the uncertainty around listing prospects in the A shares market, the Group disposed of its entire 3.50% equity interest in Nanjing Sanhome Pharmaceutical Co., Ltd. to the controlling shareholder of that company during the year, for consideration of US$21.13 million.

Looking ahead to 2018, there will be challenges as well as opportunities. In 2018, the global economy is expected to slow, as compared to 2017. However, economic growth in the US is still anticipated to be strong. It is expected that the US will once again record growth higher than its long-term growth rate of 2% for 2018, as it benefits from steady improvement in business prospects and consumer confidence, a balanced employment market and a more competitive manufacturing industry. The Eurozone economies are most likely to move with the pace of recovery in the global economy. After several years of economic recession, geopolitical crisis and political uncertainty in the Euro countries, these negative factors that have restrained economic growth may be alleviated in 2018, clearing a path to stronger growth. In contrast, the prospects for economic growth in the UK are still uncertain and under the cloud of the Brexit process. For China, economic growth in 2018 is expected to slightly slow. Based on the latest estimate from the International Monetary Fund (IMF), GDP growth in China is forecasted to be 6.6% in 2018, up 0.1% from its previous estimate. 2018 is the first year for China to act in the spirit of the 19th NCCPC, and it also marks the 40th anniversary of the reform and opening up of the economy. The Central Government's economic work is expected to focus on three major areas - prevention and mitigation of major risks, targeted poverty alleviation, as well as pollution prevention and control. The focus on prevention and mitigation of major risks is to prevent and control financial risks. The focus on targeted poverty alleviation is to ensure the quality of poverty alleviation under current standards. The focus on pollution prevention and control is to adjust industrial structures, eliminate out-of-date production methods and adjust energy structures. Although we expect that the stability of the global economy (including China) will bring

CHAIRMAN'S STATEMENT (CONTINUED)

investment opportunities to the Group, we also note that greater price volatility in the capital markets will also bring certain challenges to our investment portfolio. In particular, synergistic fluctuations in global capital markets near the beginning of 2018 have heightened our awareness of the importance of maintaining good management of financial risks. As always, the Investment Manager will face the challenges ahead and strive to identify new investment opportunities, as well as to seek to optimise our mix of investments in a way that will increase shareholders' return.

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

Mr. HONG Xiaoyuan
Chairman

Hong Kong, 28 March 2018

Mr. ZHANG Rizhong

Chairman of the Board of the Investment Manager

INVESTMENT MANAGER'S DISCUSSION AND ANALYSIS

OVERALL PERFORMANCE

China Merchants China Direct Investments Limited and its subsidiaries (the "**Fund**") recorded a profit attributable to equity shareholders of US$117.90 million for the year ended 31 December 2017, compared to a loss attributable to equity shareholders of US$15.60 million for the same period last year. The reversal was mainly due to a significant increase in the overall value of the financial assets designated at fair value through profit or loss (the "**Financial Assets**"), resulting in the recognition of a gain, rather than a loss as in the prior year. As of 31 December 2017, the net assets of the Fund were US$705.63 million (31 December 2016: US$561.32 million), with a net asset value per share of US$4.632 (31 December 2016: US$3.685).

The net gain on the Financial Assets for the year was US$174.21 million, compared to a net loss of US$35.55 million for last year. The listed and unlisted investments recorded net gains of US$120.09 million and US$54.12 million, respectively. For more information on the change in fair value of each of the listed and unlisted investments, please see the section titled "Review of Investments" in this Investment Manager's Discussion and Analysis.

Total investment income for the year decreased by 41.50% to US$15.21 million (2016: US$26.00 million) as compared to the same period last year, due primarily to a decrease in dividend and distribution income from investments, and to a decrease in interest income.

MATERIAL ACQUISITIONS AND DISPOSALS OF INVESTMENTS

In 2017, the Fund continued to seek out and rigorously evaluate investment opportunities. During the year, the Fund replaced its unlisted equity interest in a culture and media project with the stock of a listed company, invested in a tourism project, and entered into an investment agreement with an AI-related venture capital fund.

In March 2017, the Fund completed the replacement of all of its equity interest in Esurfing Media Co., Ltd. ("**Esurfing**") with the stock of Besttone Holding Co., Ltd. ("**Besttone**"), a Shanghai-listed company. The Fund invested RMB102 million in August 2012 for a 5.37% equity interest in Esurfing. In July 2016, Besttone, controlled by China Telecommunications Corporation, announced the acquisition of the entire 100% equity interest in Esurfing, based on a valuation of RMB1,941 million. The Fund decided to replace all of its equity interest in Esurfing with the A shares of Besttone, based on the above valuation, with 7.21 million Besttone shares issued at a price of RMB14.45 per share for an aggregate amount of RMB104 million (equivalent to US$15.10 million). The replacement shares have a lock-up period of one year. The overall transactions obtained all necessary approvals from the regulatory authorities and were completed in March 2017, meaning that Besttone has completed the acquisition of the entire 100% equity interest in Esurfing, and of three other companies under China Telecommunications Corporation, for stock and cash.

On 1 August 2017, the Fund entered into an agreement for a loan convertible into an equity interest with Qinghai Provincial Qinghai Lake Tourism Group Co., Ltd. ("**Qinghai Lake Tourism**"), pursuant to which the Fund agreed to advance cash of RMB200 million in total to Qinghai Lake Tourism for a period of 3 years, with the right to convert the loan into an equity interest in Qinghai Lake Tourism during the term of the loan, subject to the fulfillment of certain precedent conditions. On 11 August and 15 September 2017, the Fund disbursed RMB50 million (equivalent to US$7.50 million) and RMB150 million (equivalent to US$22.93 million), respectively, for a total of RMB200 million. Qinghai Lake Tourism is principally engaged in product development, business operations and provision of services related to tourism in Qinghai Lake and the surrounding region.

On 27 October 2017, the Fund entered into a partnership agreement with Ningbo Meishan Free Trade Port Area Jiangmen Venture Capital LLP (the "**Jiangmen Ventures Fund**"), pursuant to which the Fund undertook to contribute RMB30 million to the Jiangmen Ventures Fund, representing 7.32% of the total subscription amount of RMB410 million. On 29 January 2018, the Fund completed its contribution of RMB30 million (equivalent to US$4.74 million). The major investment targets of the Jiangmen Ventures Fund are enterprises related to machine intelligence, Internet of Things (IoT), natural user interface, and enterprise computing, with a primary focus on early-stage business ventures.

In addition, the Fund disposed of or exited from certain investments during the year:

The Fund entered into an equity transfer agreement on 26 May 2017 and completed the disposal of its entire 3.50% equity interest in Nanjing Sanhome Pharmaceutical Co., Ltd. ("**Sanhome Pharmaceutical**") to the controlling shareholder of Sanhome Pharmaceutical for consideration of US$21.13 million on 4 July 2017. The pre-tax internal rate of return to the Fund from Sanhome Pharmaceutical was 7.48%.

The Fund was granted authorisation by its shareholders to dispose of its entire holding of A shares of Industrial Bank Co., Ltd. ("**IBC**"). During the year, the Fund disposed of approximately 20 million A shares of IBC for net proceeds of US$49.02 million. Moreover, during the period of January to February 2018, the Fund further disposed of the entire remaining balance of 23.94 million A shares of IBC for net proceeds of US$69.45 million. Presently, the Fund has completed the disposal of its entire holding of A shares of IBC.

LIQUIDITY, FINANCIAL RESOURCES, GEARING AND COMMITMENTS

The Fund's bank and cash balances increased by 27.42%, from US$37.49 million at the end of last year to US$47.77 million (representing 5.47% of the Fund's total assets) as of 31 December 2017, due primarily to the disposal during the year of certain A shares of IBC, as well as its equity interest in Sanhome Pharmaceutical.

As of 31 December 2017, the Fund had no outstanding bank loans (31 December 2016: Nil).

As of 31 December 2017, the Fund had commitments of US$27.83 million (31 December 2016: US$38.25 million) for investments that were approved but not yet provided for in the financial statements – specifically, for future payments related to investments in China Media Creative Industry Private Equity (Shanghai) Centre (Limited Partnership), Guangxi Xinhua Preschool Education Investment Corporation Limited, Yunnan Jinlanmei International Travel Investment Development Co., Ltd., Anhui Iflytek Venture Capital LLP and the Jiangmen Ventures Fund.

EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES AND RELATED HEDGES

Most of the Fund's investments are located in China where the official currency is the Renminbi ("**RMB**"). The conversion rate of RMB against the US dollar has stopped depreciating and has stabilised, even recording an increase of 5.81% in 2017, which had a favourable impact on the Fund since it holds a considerable amount of assets denominated in RMB. The Fund currently does not have any foreign currency hedging policy. However, the Fund continues to monitor foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

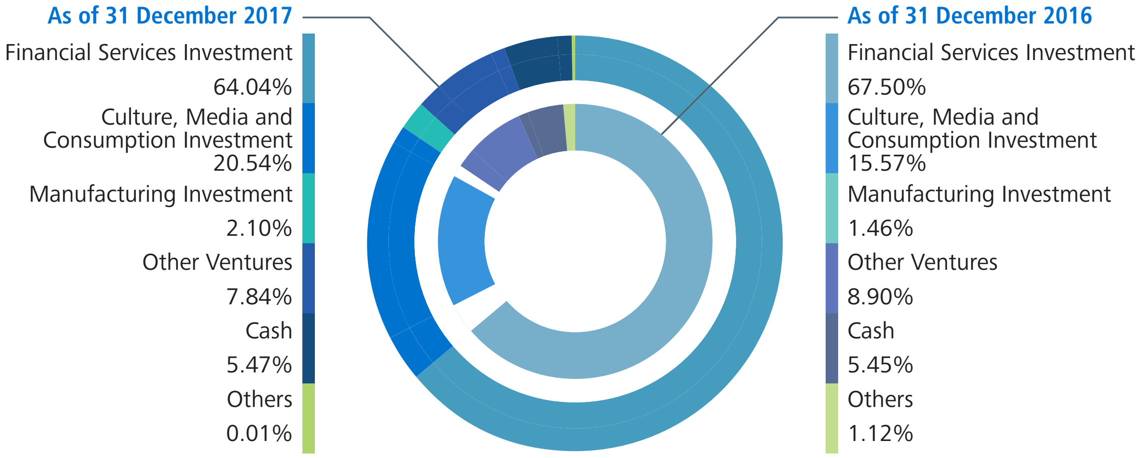
EMPLOYEES

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

THE PORTFOLIO

As of 31 December 2017, the Fund's total investments amounted to US$824.96 million. The sector distribution of investments was US$558.94 million in financial services (representing 64.04% of the Fund's total assets), US$179.31 million in culture, media and consumption (20.54%), US$18.27 million in manufacturing (2.10%), and US$68.44 million in other ventures (including energy and resources, information technology and education, etc.) (7.84%). In addition, cash was US$47.77 million, representing 5.47% of the Fund's total assets as of 31 December 2017.

TOTAL ASSETS DISTRIBUTION



Mr. WANG Xiaoding

Director and General Manager of the Investment Manager

REVIEW OF INVESTMENTS

The following table shows the major investment projects held by the Fund as at 31 December 2017:

Name of projects	Location of headquarters	Main business	Listed (Stock Exchange)/ unlisted	Carrying value *(US$ million)*	Percentage of total assets %	Percentage of net assets %
Financial Services:						
#1. China Merchants Bank Co., Ltd.	Shenzhen, Guangdong	Banking	Shanghai Stock Exchange	245	28.09	34.74
#2. Industrial Bank Co., Ltd.	Fuzhou, Fujian	Banking	Shanghai Stock Exchange	62	7.13	8.82
#3. China Credit Trust Co., Ltd.	Beijing	Trust management	Unlisted	203	23.31	28.83
#4. JIC Leasing Co., Ltd.	Beijing	Finance leasing	Unlisted	31	3.52	4.35
5. China Reinsurance (Group) Corporation	Beijing	Reinsurance	Hong Kong Stock Exchange	15	1.72	2.13
6. China Media (Tianjin) Investment Management Co., Ltd.	Tianjin	Fund management	Unlisted	2	0.27	0.34
			Sub-total:	**558**	**64.04**	**79.21**
Culture, Media & Consumption:						
#7. China Media Creative Industry Private Equity (Shanghai) Centre (Limited Partnership)	Shanghai	Media investment	Unlisted	49	5.57	6.90
#8. NBA China, L.P.	Beijing	Sports marketing	Unlisted	32	3.73	4.61
9. Unibank Media Group Inc.	Beijing	Indoor media	Unlisted	2	0.22	0.27
#10. Besttone Holding Co., Ltd.	Shanghai	Commercial Service	Shanghai Stock Exchange	15	1.77	2.18
11. Oriental Pearl Media Co., Ltd.	Shanghai	Multimedia	Shanghai Stock Exchange	9	1.02	1.27
12. Yunnan Jinlanmei International Travel Investment Development Co., Ltd.	Xishuangbanna, Yunnan	Travel	Unlisted	1	0.16	0.20
#13. Rong Bao Zhai Culture Co., Ltd.	Beijing	Artwork marketing	Unlisted	40	4.56	5.64
#14. Qinghai Provincial Qinghai Lake Tourism Group Co., Ltd.	Xining, Qinghai	Travel	Unlisted	31	3.51	4.34
			Sub-total:	**179**	**20.54**	**25.41**

Name of projects	Location of headquarters	Main business	Listed (Stock Exchange)/ unlisted	Carrying value	Percentage of total assets	Percentage of net assets
				(US$ million)	%	%
Manufacturing:						
15. Shenzhen Geesun Intelligent Technology Co., Ltd.	Shenzhen, Guangdong	Production equipment for lithium ion batteries	Unlisted	7	0.76	0.94
16. Jiangsu Huaer Quartz Materials Co., Ltd.	Yangzhou, Jiangsu	High purity silica crucibles	Unlisted	1	0.09	0.11
17. Hwagain Group Co., Ltd.	Nanning, Guangxi	Printing paper & tissue paper	Unlisted	11	1.25	1.55
			Sub-total:	**19**	**2.10**	**2.60**
Others:						
(i) Energy & Resources:						
18. Wuhan Rixin Technology Co., Ltd.	Wuhan, Hubei	Solar energy	New Third Board [Note]	8	0.90	1.11
(ii) Information Technology:						
19. Xi'an Jinpower Electrical Co., Ltd.	Xi'an, Shaanxi	Power grid monitoring system	New Third Board [Note]	1	0.11	0.14
20. Anhui Iflytek Venture Capital LLP	Hefei, Anhui	Information technology investment	Unlisted	7	0.81	1.00
#21. Iflytek Co., Ltd.	Hefei, Anhui	Intelligent speech technology	Shenzhen Stock Exchange	41	4.70	5.82
(iii) Education:						
22. Guangxi Xinhua Preschool Education Investment Corporation Limited	Nanning, Guangxi	Preschool education	Unlisted	8	0.87	1.08
			Sub-total:	**65**	**7.39**	**9.15**
			Total:	**821**	**94.07**	**116.37**

 # Ten largest investments of the Fund as of 31 December 2017

Note: New Third Board means National Equities Exchange and Quotations

China Merchants Bank Co., Ltd. ("CMB") is China's first joint-stock commercial bank, with its headquarters in Shenzhen, Guangdong and with its shares listed on the Shanghai Stock Exchange since 2002 and on the Hong Kong Stock Exchange since 2006. As of 31 December 2017, the Fund held 55.20 million A shares of CMB, representing an equity interest of 0.219%, with a corresponding investment cost of RMB154.61 million (equivalent to US$19.79 million). In June 2017, the Fund received a cash dividend of RMB40.85 million from CMB for 2016.

As of the end of 2017, the carrying value of the Fund's interest in CMB was US$245.14 million, representing an increase of 74.95% over US$140.12 million at the end of last year.

On 24 March 2018, CMB announced that its audited net profit for 2017 was RMB70.2 billion, up 13.00% year-over-year.

In May 2017, a resolution with respect to the non-public issuance of domestic and offshore preference shares was passed at the shareholders meeting of CMB. Pursuant to the resolution, CMB proposed to conduct a non-public issuance of preference shares in domestic and foreign markets in an aggregate amount of not more than RMB35 billion or its equivalent, primarily to raise additional Tier-1 capital. Of this total, the value of preference shares proposed to be issued in the domestic market would not exceed RMB27.5 billion, while the value of preference shares proposed to be issued in foreign markets would not exceed RMB7.5 billion, or its equivalent. CMB has successively obtained approvals on the issuance of preference shares in domestic and foreign markets from the China Banking Regulatory Commission and China Securities Regulatory Commission ("**CSRC**"). In particular, the issuance of foreign preference shares amounting to RMB6.6322 billion and domestic preference shares amounting to RMB27.5 billion were completed on 25 October 2017 and 22 December 2017, respectively.

On 19 September 2017, CMB Sydney Branch officially opened for business, which has further expanded CMB's overseas business network.

In 2017, 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 its headquarters in Fuzhou, Fujian and with its shares listed on the Shanghai Stock Exchange since 2007. As of 31 December 2017, the Fund held 23.94 million A shares of IBC, representing an equity interest of 0.115%, with a corresponding investment cost of RMB39.40 million (equivalent to US$4.13 million). In June 2017, the Fund received a cash dividend of RMB20.70 million from IBC for 2016.

As of the end of 2017, the carrying value of the Fund's interest in IBC was US$62.24 million, representing an increase of 11.76% over US$55.69 million (adjusted value) at the end of last year.

On 16 January 2018, IBC pre-announced that its unaudited net profit for 2017 was RMB57.4 billion, up 6.54% year-over-year.

Upon the completion of the directed share placement on 7 April 2017, the total number of ordinary shares of IBC increased from 19,052 million shares to 20,774 million shares. Fujian Provincial Department of Finance remains the largest shareholder of IBC, with its ownership interest increasing from 18.22% to 18.78%.

On 10 March 2017, the Fund was granted authorisation at the shareholders meeting to dispose of its entire holding of shares of IBC in the coming one-year period. The Fund disposed of approximately 20 million A shares of IBC for net proceeds of RMB335 million (equivalent to US$49.02 million) in 2017. Moreover, during the period of January to February 2018, the Fund further disposed of the entire remaining balance of 23.94 million A shares of IBC for net proceeds of RMB440 million (equivalent to US$69.45 million). At present, the Fund holds no A shares of IBC and has completely exited from the project.

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

As of the end of 2017, the carrying value of the Fund's interest in CCT was US$203.44 million, representing an increase of 19.53% over US$170.20 million at the end of last year.

For 2017, CCT recorded an unaudited net profit of RMB1.35 billion, up 20.93% year-over-year. The increase in net profit was mainly due to a significant increase in investment income as compared to the same period last year, as well as a reversal of asset impairment. In addition, handling fees and commissions income also increased as compared to the same period last year. In 2017, the growth rate of CCT's trust assets was above average for the industry, but new trust business was subject to intense market competition, which reduced the rate of return. Thus, revenue from the trust business increased only moderately, though on much higher volume. However, the quality of customers for CCT's trust business also improved significantly during the period. Previously, CCT's customers were primarily small and medium real estate companies, while more recent customers have included companies that rank among the top in the industry. Therefore, CCT believes there is a greater chance to acquire new projects of higher quality in the future. In addition, CCT reduced the volume of new loans funded with its own capital, resulting in a significant reduction in interest income.

Relevant regulatory authorities in China are continuing to strengthen their supervision of the asset management industry, for example, by aiming to achieve unified supervision standards in accordance with each type of asset management product, asset management business under different types of financial institutions will be regulated under one set of unified regulatory requirements, and by tightening restrictions on channel business. Although certain laws and regulations are still in the consultation stage, they may have a far-reaching impact on the operations of trust companies when officially adopted in the future. In particular, some of the proposed laws and regulations could have an adverse impact on the channel business of trust companies. Trust companies may need to explore new types of businesses, as encouraged and permitted by government policy, in order to reduce their reliance on the traditional loan financing trust business.

As CCT actively explores new businesses, for example, in June 2017, CCT acted as the management agency of an issuing vehicle for the first inter-bank trust-type asset-backed notes (ABN), by means of a bulk issuance within the industry. This further broadens the range of asset classes in CCT's asset securitisation business.

Guodu Securities Co., Ltd. (in which CCT holds a 13.33% stake) was officially listed for trading on the New Third Board on 31 March 2017, making it the seventh securities company to be listed on the New Third Board.

CCT was rated Grade B in the annual rating assessment completed in May 2017 by the China Trustee Association, down from Grade A last year. The rating assessment is a comprehensive assessment based on the overall performance of each trust company. It is estimated that one of the reasons for the lower rating was the lacklustre growth of its trust business in 2016.

JIC Leasing Co., Ltd. ("JIC Leasing") was established in Beijing in 1989, and is a leading independent finance leasing firm in China, principally engaged in finance leasing for businesses in a wide range of industries, including information technology; high-end equipment manufacturing; and healthcare, environmental protection and new energy. The Fund invested RMB246 million (equivalent to US$38.78 million) in October 2015 for a 6.46% equity interest in JIC Leasing. In April and August 2017, the Fund received cash dividends (net of tax) of RMB971,900 and RMB4.04 million from JIC Leasing for 2015 and 2016, respectively.

As of the end of 2017, the carrying value of the Fund's interest in JIC Leasing was US$30.71 million, representing a decrease of 10.44% from the value at the end of last year of US$34.29 million.

During 2017, JIC Leasing's businesses operated smoothly, as it saw rapid expansion in its business volume and recorded double-digit growth in its unaudited net profit as compared to the same period last year.

JIC Leasing has submitted the materials to apply for an initial public offering (IPO) to the CSRC in early May 2017, and provided a response to initial feedback from the CSRC in September 2017. Its IPO application may be submitted to the Issuance Examination Committee of the CSRC for review in the first half of 2018.

China Reinsurance (Group) Corporation ("**China Re**") originated from The People's Insurance Company of China, founded in 1949 as the first insurance company to be established in New China, with its headquarters in Beijing. It was listed on the Hong Kong Stock Exchange in October 2015. As currently the largest local reinsurance group in China, the business of China Re spans reinsurance, insurance, asset management, insurance brokerage, and insurance media. During the period of November to December 2015, the Fund acquired 42.38 million H shares of China Re at an average price of HK$2.35 per share on the Hong Kong secondary stock market, for an aggregate invested amount of HK$99.73 million (equivalent to US$12.87 million). During the period of February to April 2016, the Fund further acquired 24.86 million H shares of China Re at an average price of HK$2.01 per share on the Hong Kong secondary stock market, for an aggregate invested amount of HK$49.90 million (equivalent to US$6.44 million). As of 31 December 2017, the Fund held 67.24 million H shares of China Re, accounting for 0.158% of the total issued share capital of China Re, with an average purchase price of HK$2.23 per share and an aggregate invested amount of HK$150 million (equivalent to US$19.31 million). In August 2017, the Fund received a cash dividend (net of tax) of HK$3.33 million from China Re for 2016.

As of the end of 2017, the carrying value of the Fund's interest in China Re was US$15.05 million, representing a decrease of 5.64% from the value at the end of last year of US$15.95 million.

On 28 August 2017, China Re announced that its unaudited net profit for the first half of 2017 was RMB2.95 billion, up 9.46% year-over-year.

On 30 June 2017, China Re announced that it had successfully issued US$700 million in new notes. The net proceeds are intended to be used for general corporate purposes and investments in offshore projects.

On 9 November 2017, China Re announced that it would invest EU€579 million in a logistics asset portfolio located in Europe with a total area of 14 million square metres. In addition to China Re, other participants in the investment included Bank of China Group Investment Limited and New China Life Insurance Co., Ltd. The source of funds for this investment came mainly from the US dollar notes issued in 2017.

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 2017, the carrying value of the Fund's interest in China Media Management was US$2.36 million, representing an increase of 65.03% over US$1.43 million at the end of last year.

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

China Media Creative Industry Private Equity (Shanghai) Centre (Limited Partnership) ("China Media Investment") was established in Shanghai, and is the first fund in the culture and media sector approved for registration by the National Development and Reform Commission. Its total capitalisation is RMB2 billion. China Media Investment has an investment horizon of 10 years. The scope of 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. China Media Investment has entered into the investment exit period.

In April 2010, the Fund agreed to make a capital investment of RMB200 million by installment in China Media Investment. From June 2010 through 31 December 2017, the Fund has made successive capital injections into China Media Investment for a cumulative actual investment of RMB158.66 million (equivalent to US$24.76 million), representing 79.33% of the total investment of RMB200 million committed by the Fund.

In addition to the payments listed above, the Fund invested RMB12.45 million (equivalent to US$2.02 million) in cash in China Media Investment in April 2014, specifically for the purpose of investing in IMAX China. IMAX China conducted an IPO and was listed in Hong Kong in October 2015 with an issuance price of HK$31 per share. During the period from the listing to 5 April 2017, China Media Investment and the Fund disposed of all of its IMAX China shares in three tranches, at a price of HK$31 per share, HK$47 per share and HK$39.72 per share, respectively. As of 5 April 2017, the Fund successfully exited from IMAX China and received the full amount of the net proceeds in the fourth quarter of 2017. The pre-tax internal rate of return to the Fund from IMAX China was 129%.

Through the end of 2017, the Fund has received a total actual investment return of RMB246 million from China Media Investment, including the investment return from IMAX China, representing approximately 144% of the cumulative actual amount invested by the Fund.

As of the end of 2017, the carrying value of the Fund's interest in China Media Investment was US$48.66 million, representing an increase of 131.94% over US$20.98 million at the end of last year.

As of the end of 2017, the unaudited net asset value of China Media Investment was RMB3.037 billion, representing an increase of 90.81% compared to the end of last year, due primarily to a significant increase in the fair value of its investment projects.

By the end of 2017, China Media Investment had completed the full exit from three projects, while continuing to hold four projects, namely Star China, Shanghai Jade East Propagation Co., Ltd. (上海翡翠東方傳播有限公司), Shanghai Oriental DreamWorks Co., Ltd. (上海東方夢工廠有限公司) and Weiying. Of these, Shanghai Canxing Culture Media Co., Ltd. (上海燦星文化傳媒股份有限公司), the domestic operating entity of Star China, completed a new round of financing in late December 2017 and has since accelerated the pace of its preparations for listing.

NBA China, L.P. ("NBA China") is a limited liability partnership incorporated in the Cayman Islands in 2007. NBA China conducts all of the NBA's businesses in the Greater China Region, including television broadcasting rights, advertising, sponsorships, events, digital media, and merchandising, among other new businesses. The original investment by the Fund in 2008 was US$23 million, representing a 1% partnership interest in NBA China. The Fund subsequently received partial returns of capital from NBA China in January 2013, March 2016, March 2017 and May 2017, for a total amount of US$23 million, representing a full recovery of the capital invested in NBA China by the Fund. As of 31 December 2017, the Fund held a 1% partnership interest in NBA China. The Fund received cash distributions from NBA China of US$442,800, US$1.69 million and US$1.16 million in January 2017, May 2017 and January 2018, respectively.

As of the end of 2017, the carrying value of the Fund's interest in NBA China was US$32.54 million, representing an increase of 21.87% over US$26.70 million at the end of last year. The Fund's revenue attributable to its investment in NBA China for 2017 was US$7.97 million, up 353.12% year-over-year.

In March 2017, NBA China and Weibo announced the establishment of a long-term strategic partnership, under which Weibo became the official social media platform for NBA China. Instant video clips of NBA games, highlights of NBA games, original programming, and a variety of interactive products will be launched by both parties in order to create a new interactive experience of top international sports.

In July 2017, NBA China announced a long-term sponsorship agreement with Manulife-Sinochem Life Insurance Co., Ltd. ("**Manulife-Sinochem**"), under which Manulife-Sinochem became the official life insurance partner of the "NBA 5v5" Elite Basketball Tournament. It is the first time NBA China has entered into a partnership with a party from the insurance industry in China.

Based on the strategic partnership between NBA China and the Ministry of Education of China, in order to comprehensively popularise and develop basketball as a sport at Chinese secondary and primary schools, following the first basketball curriculum offered to physical education teachers in 525 schools across 11 provinces and cities in 2016, NBA China has held 15 training camps in 11 cities since August 2017 for physical education teachers coming from 2,000 schools across 15 provinces and cities. It is anticipated that in the 2017/2018 academic year, there will be over 2 million students participating in the basketball curriculum jointly developed by the NBA and the Ministry of Education of China.

In September 2017, NBA China and the Mission Hills Group announced the establishment of a long-term strategic partnership. Both parties will cooperate in the design, construction and operation of an NBA basketball training centre in Haikou. The training centre will be open to female and male teenage players of all levels, from beginner to professional, and is scheduled to commence operations in 2019. The Mission Hills Group will be responsible for the design and construction of the training centre, while NBA China will be responsible for operating the centre, for providing NBA-trained coaches, and for developing basketball training programmes. Both parties will also open an NBA interactive experience and store, which will include a multimedia exhibition space and an NBA store.

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

As of the end of 2017, the carrying value of the Fund's interest in Unibank Media was US$1.89 million, representing a decrease of 42.73% from the value at the end of last year of US$3.30 million.

INVESTMENT MANAGER'S DISCUSSION AND ANALYSIS (CONTINUED)

Unibank Media recorded a loss for 2017, mainly attributable to high set-up costs for new projects and to a substantial decrease in the volume of orders from key customers, which have placed continuing pressure on its operating results.

Besttone Holding Co., Ltd. ("Besttone") was established in Shanghai in 1992 and listed on the Shanghai Stock Exchange in 1993. Besttone, formerly known as China Satcom Guomai Communications Co., Ltd., underwent a major reorganisation in 2012 and adopted a new structure with business travel reservations, hotel operations and management, and reward points operations as its major lines of business. In order to elevate the competitiveness of Besttone, its controlling shareholder, China Telecommunications Corporation ("**CTC**"), initiated another reorganisation in 2017 with the addition of several businesses related to value-added services, Internet and entertainment. Furthermore, with resources and support from CTC, Besttone can collaborate with CTC on the creation of an interrelated business ecosystem, and tap the energy and creativity enhanced by its mixed-ownership form. In March 2017, the Fund completed the replacement of Besttone's A shares at a price of RMB14.45 per share for an aggregate amount of RMB104 million (equivalent to US$15.10 million), consisting of 7.21 million replacement shares, with its 5.37% equity interest in Esurfing Media Co., Ltd., representing 0.907% of the issued share capital of Besttone as of 31 December 2017. The replacement shares have a lock-up period of one year, which will expire in March 2018. In July 2017, the Fund received a cash dividend of RMB50,500 from Besttone for 2016.

As of the end of 2017, the carrying value of the Fund's interest in Besttone was US$15.41 million.

On 30 January 2018, Besttone pre-announced that its unaudited net profit for 2017 was in the range of RMB220 million to RMB240 million, up 1,131% to 1,243% (adjusted) year-over-year, mainly due to profit contribution from its four new businesses, namely video, games, reading and animation.

Following the completion of the acquisition and reorganisation in March 2017, Besttone has been proactively establishing its smart platform for culture and entertainment, as well as creating a pan-entertainment and leisure ecosphere, which will result in an accelerated transformation into an "Internet+" business.

On 17 October 2017, Besttone held a shareholders meeting to consider and approve a resolution regarding the acquisition of a 100% equity interest in Chengdu E-Store Technology Co., Ltd. ("**E-Store**"). E-Store is the official mobile application store of China Telecom Corporation Limited, providing mobile applications and digital content available for download by users. It is also a platform that focuses on the download, management and sharing of Android applications, providing customers with application softwares including video and audio entertainment, news, games, wealth management, productivity tools, books, travel and other application services. In addition, Besttone intends to strengthen its strategic cooperation with Oriental Pearl (Note: The Fund also holds an equity interest in Oriental Pearl, as detailed below), especially in the fields of mobile video and game development.

Oriental Pearl Media Co., Ltd. ("Oriental Pearl") is a new operating entity formed following a merger and reorganisation with BesTV New Media Co., Ltd. ("**BesTV**"), a listed company under Shanghai Media Group Ltd. ("**SMG**"), and Shanghai Oriental Pearl (Group) Co., Ltd., formerly also a listed company, along with the injection of relevant advertising, content production and new media assets by SMG, its largest shareholder, before being renamed to Oriental Pearl from BesTV. The restructuring was completed in June 2015. Oriental Pearl will push forward with the integration and development of traditional and emerging media and become the sole resource consolidation and listing platform for SMG, as well as an all-media and whole-industry chain platform company, spanning content production, cloud services and value-added advertising services. At the same time, Oriental Pearl will draw on its strong media business as a foundation for growth, adopt the Internet TV business as a strategic point of entry, convert its audiences to users, cash in on data traffic, build an Internet media-based ecosystem, business model and system structure, and develop into a new type of Internet media group with the highest market value, communication capability, credibility and influence. In May 2015, the Fund invested RMB120 million (equivalent to US$19.62 million), through a partnership enterprise, in Oriental Pearl for a beneficial ownership of 3.70 million A shares, representing a 0.14% equity interest. There is a 3-year lock-up period for the A shares of Oriental Pearl beneficially owned by the Fund, which will expire in May 2018. In November 2017, the Fund received a cash dividend of RMB1.26 million declared by Oriental Pearl for 2016.

As of the end of 2017, the carrying value of the Fund's interest in Oriental Pearl was US$8.99 million, representing a decrease of 10.64% from the value at the end of last year of US$10.06 million.

On 31 October 2017, Oriental Pearl announced that its unaudited net profit for the first three quarters of 2017 was RMB1.013 billion, down 47.52% year-over-year. One of Oriental Pearl's advertising partners has been suspected of fraud in contracts and has come under investigation by the public security authorities, posing a risk to Oriental Pearl's trade receivables from this partner. As such, Oriental Pearl has made a specific provision for impairment of these trade receivables, which affected net profit for the period.

In addition, on 30 June 2017, a resolution, proposed by the board of directors of Oriental Pearl, was considered and passed at the shareholders meeting to change the full name of the company to its present name from "Shanghai Oriental Pearl Media Co., Ltd. (上海東方明珠新媒體股份有限公司)". The name change is intended to improve brand recognition and increase opportunities for strategic business development, as well as to reflect that a portion of the business of Oriental Pearl is not limited to Shanghai and that the company is actively exploring new markets across the country, as it steadily promotes its strategy of "Entertainment+" and develops both online and traditional pan-entertainment platforms.

During 2017, user volume for Oriental Pearl's IPTV and OTT businesses demonstrated steady growth. At the same time, Oriental Pearl continued to pursue the introduction of new content, including Game of Thrones (Season 7) from HBO, a new season of NBA games, Top Gear from the BBC and other high-quality content, while it also acquired the distribution rights to several key copyrighted variety show products from SMG, including Go Fighting and The Next, which were broadcast on the BesTV platform.

In the second half of 2017, Oriental Pearl continued to enter into several new agreements with its strategic partners, including a new agreement with Besttone intended to strengthen collaboration on "Entertainment +" for mobile TV and the mobile game business, as well as a new agreement with CTC intended to initiate collaboration in the fields of IPTV, mobile TV, Internet TV, terminal hardware, TV shopping, games and entertainment, and overseas business.

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

As of the end of 2017, the carrying value of the Fund's interest in Jinlanmei Travel was US$1.42 million, representing a decrease of 1.39% from the value at the end of last year of US$1.44 million.

By the end of 2017, Jinlanmei Travel had fully completed a detailed plan for its business, including an initial proposal for cruise ship construction, a proposal for home base cruise dock, the design of core tourism offerings, and a proposal for construction of a dock complex in Laos. Moreover, some tendering process is gradually underway. All of these efforts were carried out in accordance with the company's original business plan and positioning. Jinlanmei Travel intends to commence international shipping and tourism services in 2018, thus it is planning to order new cruise ships, submit an application for the construction of a tourist dock to the relevant authorities, and move forward with construction of supporting facilities for the project of Laos Wangkong Exotic Resort Phase I, as it takes steps to proactively expand the business of the company.

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

As of the end of 2017, the carrying value of the Fund's debt in Rong Bao Zhai Culture was US$39.80 million, representing a decrease of 8.21% compared to the investment cost of US$43.36 million.

Currently, Rong Bao Zhai is still in the process of injecting assets into Rong Bao Zhai Culture, its sole business development platform, while launching a conversion of Rong Bao Zhai Culture into a joint-stock limited company, with a goal to complete the conversion in 2018.

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

As of the end of 2017, the carrying value of the Fund's debt in Qinghai Lake Tourism was US$30.61 million.

Currently, Qinghai Lake Tourism is in the process of implementing a restructuring plan under the guidance of the intermediaries, as it seeks to divest non-operating assets and personnel while retaining its core business in the original operating entity, primarily to rectify or remedy any compliance deficiencies that may have existed in its past evolution as a company. Upon completion of the restructuring plan, and with its principal assets and businesses clearly defined, the Fund will, at appropriate time, consider whether suitable conditions have been satisfied for the exercise of conversion rights.

Shenzhen Geesun Intelligent Technology Co., Ltd. ("Geesun Intelligent") was established in Shenzhen, Guangdong in 2006 and is a leading professional manufacturer of production equipment and automated production lines for lithium ion batteries and supercapacitors in China. Its name was changed to Shenzhen Geesun Zhiyun Technology Co., Ltd. in April 2015 as a result of an acquisition and capital increase, and was further changed to its present name as a result of a transfer of its entire equity interest by its then controlling shareholder to CAS Investment Management Co., Ltd., then the second largest shareholder, in October 2016. The Fund invested RMB20 million (equivalent to US$2.93 million) in May 2010 and held a 9.68% equity interest in Geesun Intelligent as of 31 December 2017. In January 2018, Geesun Intelligent completed a new round of capital funding and the equity interest held by the Fund was diluted to 6.78% as a result.

As of the end of 2017, the carrying value of the Fund's interest in Geesun Intelligent was US$6.59 million, representing an increase of 80.55% over US$3.65 million at the end of last year.

Benefiting from industry-wide trends of production capacity expansion and product localisation for lithium ion batteries, the lithium ion battery equipment industry continues to improve. Geesun Intelligent realised an unaudited net profit of RMB28.83 million for 2017, up 167.94% year-over-year.

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

INVESTMENT MANAGER'S DISCUSSION AND ANALYSIS (CONTINUED)

As of the end of 2017, the carrying value of the Fund's interest in Jiangsu Huaer was US$0.75 million, representing an increase of 59.57% over US$0.47 million at the end of last year.

In view of supply-side structural reforms and efforts to cut overcapacity, market demand for both single crystalline silicon solar cells and high purity silica crucible products used in production recovered in 2017 as compared to the same period of 2016. However, due to past-due trade receivables, turnover of Jiangsu Huaer's working capital was slow and its financing costs remained high, greatly affecting its normal business production and operations. Presently, while decreasing supply to the delinquent customers and stepping up efforts to recover past-due trade receivables, Jiangsu Huaer is also continuing to develop other domestic and overseas customers by leveraging its industry-leading production capabilities for large-size products and its high degree of quality control. However, the past-due trade receivables remain considerable, leading to tight liquidity, thereby limiting the number of orders the company can receive. As such, Jiangsu Huaer saw no improvement in its operating results in 2017.

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

As of the end of 2017, the carrying value of the Fund's interest in Hwagain was US$10.92 million, representing an increase of 84.77% over US$5.91 million at the end of last year.

For 2017, Hwagain achieved an unaudited net profit of RMB84.21 million (including extraordinary items), representing a decrease in profit as compared to the same period last year, due mainly to the fact that the remaining compensation payments, due from the government to Hwagain for resettlement of old plants, were reduced significantly during the year. In addition, during 2017, paper prices increased moderately, leading to an increase in profit from the main business of Hwagain.

Wuhan Rixin Technology Co., Ltd. ("Wuhan Rixin") was established in Wuhan, Hubei in 2001 and is a state-accredited high technology enterprise engaged in the design, production and installation of solar modules and Building Integrated Photovoltaic (BIPV) products, as well as in the operation, maintenance and management of solar powered electric systems. The stock of Wuhan Rixin was listed for trading on the New Third Board in February 2016. The Fund invested RMB15 million (equivalent to US$2.20 million) in July 2009 and held 3.30 million shares in Wuhan Rixin, representing a 4.24% of its equity interest as of 31 December 2017.

As of the end of 2017, the carrying value of the Fund's interest in Wuhan Rixin was US$7.85 million, representing an increase of 78.41% over US$4.40 million at the end of last year.

On 10 August 2017, Wuhan Rixin announced that its unaudited net profit for the first half of 2017 was RMB2.12 million (including extraordinary items), down 94.02% year-over-year.

On 28 June 2017, Wuhan Rixin completed the transfer and change of business registration of its 100% equity interest in Macheng Jindi Solar Power Co., Ltd., a company that was indirectly held by Wuhan Rixin, primarily to improve the cash flow and financial position of the company, as well as to enhance its ability to continue as a going concern.

On 11 August 2017, Wuhan Rixin announced that its board of directors had passed a proposal on the issuance of new shares, limited to no more than 1.808 million shares (representing approximately 2.38% of the existing share capital of Wuhan Rixin of 76.09 million shares) at a price of RMB15.55 per share. The amount of funds raised shall be no more than RMB28.12 million and shall be used to replenish its working capital. On 27 October 2017, Wuhan Rixin announced that the new shares issuance of 1.79 million shares was completed, with an issuance price of RMB15.55 per share, and that it had raised funds of RMB27.83 million. Upon completion of this issuance of new shares, the Fund's equity interest in Wuhan Rixin was diluted from 4.34% to 4.24%.

Xi'an Jinpower Electrical Co., Ltd. ("Jinpower Electrical") was established in Xi'an, Shaanxi in 2001 and is a high technology enterprise principally engaged in the research and development, and production, of intelligent online monitoring systems for transmission lines and substation equipment for the power grid. The stock of Jinpower Electrical was listed for trading on the New Third Board in January 2016. The Fund invested RMB20 million (equivalent to US$3.03 million) in January 2011 and held 2.89 million shares in Jinpower Electrical, representing a 4.83% of its equity interest as of 31 December 2017.

As of the end of 2017, the carrying value of the Fund's interest in Jinpower Electrical was US$0.98 million, representing a decrease of 38.75% from the value at the end of last year of US$1.60 million.

On 28 August 2017, Jinpower Electrical announced that its unaudited net loss for the first half of 2017 was RMB6.17 million (including extraordinary items), as compared to a loss of RMB2.52 million for the same period last year.

The market for online monitoring products has continued to experience some weakness, as the industry moves through a period of retrenchment. However, the State Grid Corporation of China has gradually increased its investment in the field of online monitoring, eased restrictions on bidding volume for online monitoring projects. Besides, the continuous functionality improvement of both hill fire prevention and failure-prevention of monitoring products has played a positive role in the promotion of online monitoring products. The national power industry is expected to invest more resources in online monitoring products in the coming years and the company will be fully prepared to keep pace with the development of online monitoring products in alignment with the State Grid Corporation of China.

Anhui Iflytek Venture Capital LLP ("Iflytek Venture Capital") was established in Hefei, Anhui in December 2015, with an investment horizon of 7 to 9 years and with a fund size of RMB602 million. Its major investment targets are industries related to the Internet and applications of artificial intelligence (AI) in China, primarily to areas including education, healthcare, tourism, motor vehicles, Internet of Things (IoT), smart hardware, information security, e-commerce, interactive entertainment, smart toys, robotics and Internet advertising. The general partner and investment manager of Iflytek Venture Capital is Wuhu Iflytek Investment Management LLP, which is responsible for defining and executing the investment strategy for Iflytek Venture Capital, as well as for managing their operations. The Fund has committed to subscribe to an aggregate of RMB90 million by installment, for a 14.95% interest in Iflytek Venture Capital. In December 2016 and August 2017, the Fund completed the first and second capital contributions of RMB36 million (equivalent to US$5.19 million) and RMB13.50 million (equivalent to US$2.01 million) to Iflytek Venture Capital, respectively, representing an aggregate of RMB49.50 million (equivalent to US$7.20 million) or 55% of the subscription amount committed by the Fund.

As of the end of 2017, the carrying value of the Fund's interest in Iflytek Venture Capital was US$7.06 million, representing a decrease of 1.94% compared to the investment cost of US$7.20 million.

By the end of 2017, Iflytek Venture Capital had completed investments in thirteen projects. During the year, it invested five new projects, signed an equity transfer agreement in order to exit from one project, with the proceeds to be received, and two projects submitted IPO materials and pending approval.

Iflytek Co., Ltd. ("Iflytek") was established in 1999 and is headquartered in Hefei, Anhui. It was listed on the SME board of the Shenzhen Stock Exchange in May 2008. It is a national key software enterprise dedicated to the research of intelligent speech, language technologies, and AI technologies; the development of software and chip products; the provision of speech information services; and the integration of e-government systems. During the period of November to December 2016, the Fund acquired 4.54 million A shares of Iflytek at an average price of RMB28.64 per share on the secondary stock market of Mainland China, accounting for 0.327% of the issued share capital of Iflytek as of 31 December 2017, with an aggregate invested amount of RMB130 million (equivalent to US$18.83 million). In April 2017, the Fund received a cash dividend (net of tax) of RMB435,100 from Iflytek for 2016.

As of the end of 2017, the carrying value of the Fund's interest in Iflytek was US$41.05 million, representing an increase of 131.79% over US$17.71 million at the end of last year.

On 28 February 2018, Iflytek pre-announced that its unaudited net profit for 2017 was RMB428 million, down 11.66% year-over-year.

Currently, the main business of the company has been seeing some positive developments. Given the ongoing development of the intelligent speech and language industry, and resulting expansion in market size, the operating income and gross profit of the company continued to record growth in 2017, while net profit experienced a temporary decline, mainly due to non-recurring income that arose when the company's stake in a subsidiary increased from a minority interest to a controlling interest in 2016. In addition, the company has continued to strengthen its efforts to enhance its industry presence and to invest in the research and development of its core technology, especially key applications of AI, leading to an increase in spending on research and development, as well as marketing, in 2017. While these investments restrained net profit growth in the year, they should also secure Iflytek's position as an industry leader and lay a solid foundation for future growth that will lead to long-term profitability.

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

As of the end of 2017, the carrying value of the Fund's interest in Xinhua Preschool Education was US$7.60 million, representing an increase of 4.54% over US$7.27 million at the end of last year.

Xinhua Preschool Education recorded an unaudited net loss of RMB3.64 million for 2017, representing an increase in the loss as compared to the same period last year.

The controlling shareholder of Xinhua Preschool Education, Xinhua Bookstore, has completed a merger with Guangxi Publishing and Distribution Group to become Guangxi Publishing & Media Group Co., Ltd., which should help to further improve and enhance the overall management structure. As a subsidiary of the group, Xinhua Preschool Education is expecting to see an increase in both development space and resources. Xinhua Preschool Education will take further action to expand the number and size of schools, increase enrollment, improve the level of young children's caring and education, strengthen day-to-day management, and gradually return to profitability, as planned.

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

As of the end of 2017, the carrying value of the Fund's interest in Liaoning Zhenlong was nil, same as that at the end of last year.

Since the CSRC has made a decision to terminate its review of Liaoning Zhenlong's IPO application in June 2015, the Fund has duly appointed a legal agency to apply for arbitration with respect to the Fund's exit from this investment, according to the relevant provisions of law. On 11 December 2017, China International Economic and Trade Arbitration Commission made a decision in favour of some allegations made by the Fund and ruled that Liaoning Zhenlong was required to pay a total of RMB38.02 million, including principal, interest on overdue repurchases, legal fees and arbitration fees. Liaoning Zhenlong then failed to pay the amount due within 30 days from the date of the ruling. Since then, the Fund has filed an application for enforcement with the court, and has also applied to the Fuxin Intermediate People's Court for a departure restriction on Mr. HUANG Yue, chairman of Liaoning Zhenlong. The Fund will continue to monitor the situation in order to protect its rights and interests.

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

As of the end of 2017, the carrying value of the Fund's interest in NTong was nil, same as that at the end of last year.

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

NTong has filed for bankruptcy in the court of Haidian District, Beijing and a restructuring proposal was submitted by an interested party to the court in which the reorganisation might take place. The management of NTong, the investors and the creditors entered into negotiations regarding the proposal, however the parties ultimately failed to reach an agreement. In June 2017, another interested party submitted a new restructuring proposal, but in August 2017 the Fund voted against the proposal as it failed to satisfy the interests of the Fund. Up to now, there are no other new proposals presented by the interested parties and the administrator. The Fund is continuing to monitor progress on these matters.

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

As of the end of 2017, the carrying value of the Fund's interest in Chengtian was US$3.90 million, representing an increase of 5.98% over US$3.68 million at the end of last year.

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

In April 2016, the controlling shareholder of Chengtian made a further payment of RMB0.20 million to the Fund, as a good faith gesture. In October 2016, the management of Chengtian met with its institutional shareholders (including the Fund) to express its interest in working with shareholders to list Chengtian on the New Third Board by spinning off part of its business as a new entity, and also its willingness to proceed with negotiations on further repayment plans.

In May 2017, the controlling shareholder of Chengtian entered into negotiations with the Fund with respect to repayment, and both parties wish to resolve the default as soon as possible. Given that the controlling shareholder of Chengtian had not yet returned all of the remaining principal by the end of 2017, the Fund and another investor jointly appointed a legal representative who filed for arbitration with Chengtian and its authorised representative by the Beijing Arbitration Commission in early January 2018, and who applied for property preservation by the Bayingolin Mongol Autonomous Prefecture Intermediate People's Court in mid-January 2018. Further, in late January 2018, the Fund selected arbitrators from the "Arbitrators List" provided by the Beijing Arbitration Commission and is now waiting for a formal trial once the chief arbitrator has been selected by the Beijing Arbitration Commission. The Fund will continue to monitor the progress of this arbitration proceeding in order to protect its rights and interests.

PROSPECTS

In 2018, it is expected that the overall global economy will continue to walk on a path of recovery, but the many risk factors that could hinder the economy in achieving this expected growth should not be neglected. If, for example, we see greater strain in the US employment market, leading to strong growth in wages along with higher inflation expectations, the US Federal Reserve may raise interest rates at a rate that is higher than the market expects, imposing downward pressure on asset prices. In addition, China remains in an important transitional stage as it adjusts to certain economic and structural reforms that could lead to slower growth. Certain short-term economic stimulus policies, such as those in relation to consumer spending on durable goods or monetising the resettlement for shantytown dwellers, may not be sustainable in 2018. Supply-side structural reforms in the industrial field will also continue to move forward. The remarkable results achieved by cutting excessive production capacity, deleveraging and lowering costs is the primary reason why industrial enterprises registered a significant rebound in profit growth. However, the structural characteristics of differentiation in corporate profit growth are still evident. It is anticipated that the profits of Chinese industrial enterprises will be able to maintain their momentum in 2018, but also that the overall rate of growth will slow as compared to 2017, while structural differentiation will continue. Given that China's economic growth in 2018 continues to show signs of slowing, it is expected that the operating results of the investment projects (mainly operating in China) held by the Fund will be impacted to a certain degree.

The Central Economic Working Conference, convened in December 2017, identified the primary objective for the economy in 2018, which is to make progress while ensuring stability. The Central Government has instilled a focus on the promotion of quality development, while taking steps to ensure that eight key tasks are carried out in an effective manner, including: advancing supply-side structural reforms, stimulating the vitality of various market players, implementing a rural revitalisation strategy, implementing a coordinated regional development strategy, facilitating the cultivation of a new environment that is fully open, improving social security and the stability of people's livelihood, accelerating the development of a housing system with multi-source of supply, multi-channel support, with an equal focus on renting and purchasing, and accelerating the building of an ecological civilisation. Given that the Central Government is stepping up its adjustments to economic structures, new industries, new business forms and new business models are likely to thrive and develop rapidly. New economic sectors such as high-tech and strategic emerging industries, especially in the areas of AI and culture and media, will still receive greater support from government policies, as well as more attention from capital markets. With the advent of the big data era, along with improvement in algorithms and enhancement in the accuracy of unsupervised learning, AI will enter another period of rapid growth, in which "big data + AI" will profoundly change the structure of traditional industries. It is here that the Fund will continue to seek out the best opportunities for investment.

BUSINESS STRATEGY

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

KEY RISK FACTORS

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

Economic Risk

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

Market Competition Risk

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

Operation Risk

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

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

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

Stock Market Risk

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

Legal Uncertainty

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

Policy and Regulatory Risk

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

Exchange Rate Fluctuation Risk

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

Foreign Exchange Control Risk

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

SUB-PARTICIPATION SCHEME (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 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%.

INVESTMENT MANAGER'S DISCUSSION AND ANALYSIS (CONTINUED)

As of 31 December 2017, details of aggregate amounts actually provided by the Participants and their relative proportion to the investment amounts actually paid by the Fund were as follows:

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

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

In addition, as of 31 December 2017, details of the amounts actually paid by some of the Directors of the Fund as well as a Director of the Investment Manager for the Scheme were as follows:

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

INVESTMENT MANAGER'S DISCUSSION AND ANALYSIS (CONTINUED)

Name of projects	Mr. HONG Xiaoyuan (Note 1) US$	Mr. ZHANG Rizhong (Note 2) US$	Mr. WANG Xiaoding (Note 3) US$	Mr. TSE Yue Kit (Note 4) US$	Mr. LAW Hung Kuen, Janson (Note 5) US$	Mr. LI Yinquan (Note 6) US$
China Media Investment (9th installment capital contribution)	330	N/A	1,330	30	N/A	N/A
Xinhua Preschool Education (1st installment capital contribution)	2,150	N/A	4,310	440	N/A	N/A
Oriental Pearl	13,930	N/A	38,870	1,390	N/A	N/A
JIC Leasing	N/A	N/A	12,900	1,290	N/A	3,870
China Re	N/A	N/A	12,900	1,290	1,290	3,870
Jinlanmei Travel (1st installment capital contribution)	N/A	N/A	3,220	640	640	1,290
Iflytek	N/A	N/A	12,890	1,290	1,290	2,580
Iflytek Venture Capital (1st installment capital contribution)	N/A	N/A	6,440	1,290	1,290	2,580
Rong Bao Zhai Culture (1st installment capital contribution)	N/A	N/A	8,590	860	860	1,730
Rong Bao Zhai Culture (2nd installment capital contribution)	N/A	N/A	4,290	420	420	850
Iflytek Venture Capital (2nd installment capital contribution)	N/A	N/A	970	190	190	390
Qinghai Lake Tourism (1st installment capital contribution)	N/A	640	3,200	320	320	N/A
Qinghai Lake Tourism (2nd installment capital contribution)	N/A	1,920	9,600	960	960	N/A

Note 1: Chairman of the Fund
Note 2: Director of the Fund (appointed on 25 April 2017) and Chairman of the Investment Manager (appointed on 1 April 2017)
Note 3: Director of the Fund and Director & General Manager of the Investment Manager
Note 4: Director of the Fund and Director of the Investment Manager
Note 5: Director of the Investment Manager
Note 6: Director of the Fund (resigned on 25 April 2017) and Chairman of the Investment Manager (resigned on 1 April 2017)

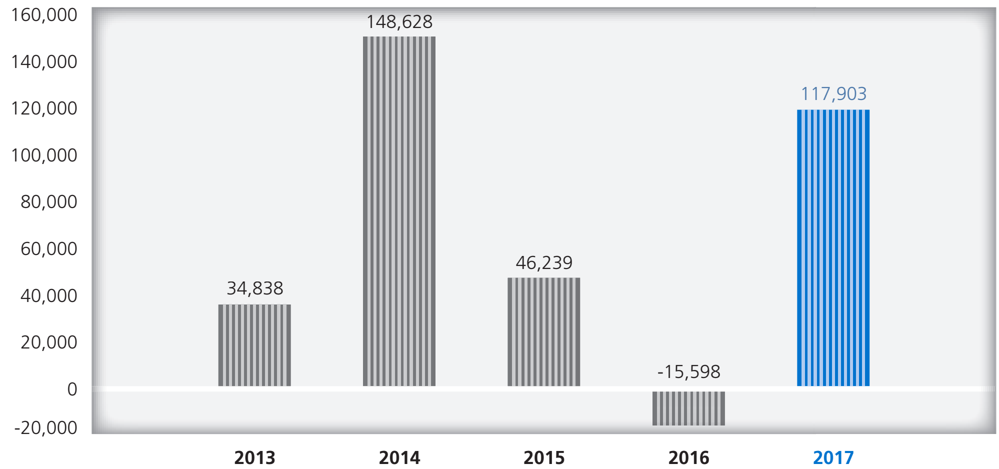
Mr. WANG Xiaoding
Director and General Manager
China Merchants China Investment Management Limited

Hong Kong, 28 March 2018

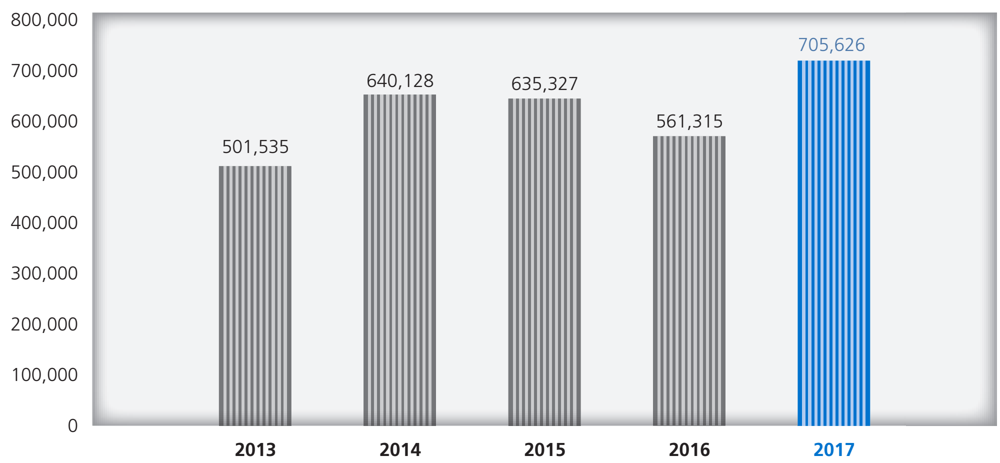
FINANCIAL HIGHLIGHTS

YEAR	NET PROFIT (LOSS) *(US$'000)*	NET ASSETS *(US$'000)*
2017	**117,903**	**705,626**
2016	(15,598)	561,315
2015	46,239	635,327
2014	148,628	640,128
2013	34,838	501,535

NET PROFIT (LOSS) (US$'000)



NET ASSETS (US$'000)



DIRECTORS' REPORT

The Directors present their annual report and the audited consolidated financial statements for the year ended 31 December 2017.

PRINCIPAL ACTIVITIES

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

BUSINESS REVIEW

A review of the business of the Group during the year and a discussion on the Group's prospects are provided in the Chairman's Statement and the Investment Manager's Discussion and Analysis on pages 4 to 6 and pages 8 to 30 of the Annual Report, respectively. Description of key risk factors and uncertainties that the Group is facing is provided in the Investment Manager's Discussion and Analysis on pages 30 to 32 of the Annual Report and in note 4 to the consolidated financial statements while the financial risk management objectives and policies of the Group can be found in note 5 to the consolidated financial statements. An analysis of the Group's performance during the year using financial key performance indicators is provided in the Financial Summary on page 120 of the Annual Report. In addition, discussions on the Group's compliance with relevant laws and regulations which have a significant impact on the Group, relationships with its key stakeholders and environmental policy are contained in the Corporate Governance Report on pages 50 to 64 of the Annual Report.

RESULTS AND DIVIDENDS

The results of the Group for the year ended 31 December 2017 and the financial position of the Group at that date are set out in the consolidated financial statements on pages 74 to 75.

The Directors recommend the payment of a final dividend of US$0.06 per share (2016: US$0.06) for 2017 to the shareholders on the register of members on 31 May 2018 amounting to US$9,139,981 (2016: US$9,139,981).

FIVE YEARS FINANCIAL SUMMARY

A summary of the results and the assets and liabilities of the Group for the last five financial years is set out on page 120 of the Annual Report.

DISTRIBUTABLE RESERVES OF THE COMPANY

The Company has an amount of US$47,689,857 (31 December 2016: US$33,739,011) available for distribution as at 31 December 2017.

ISSUED SHARES

Details of movements during the year in the issued shares of the Company are set out in note 23 to the consolidated financial statements.

EMOLUMENT POLICY

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

PURCHASE, SALE OR REDEMPTION OF SHARES OF THE COMPANY

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

DIRECTORS

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

Executive Directors

Mr. HONG Xiaoyuan *(Chairman)*
Mr. CHU Lap Lik, Victor
Mr. WANG Xiaoding
Mr. TSE Yue Kit
Ms. KAN Ka Yee, Elizabeth
(alternate to Mr. CHU Lap Lik, Victor)
Mr. LI Yinquan (Resigned on 25 April 2017)

Non-executive Directors

Mr. KE Shifeng
Mr. ZHANG Rizhong (Appointed on 25 April 2017)

Independent Non-executive Directors

Mr. LIU Baojie
Mr. TSANG Wah Kwong
Dr. LI Fang
Mr. ZHU Li (Resigned on 25 April 2017)

In accordance with Article 105 of the Articles of Association of the Company, Mr. TSE Yue Kit, 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. HONG Xiaoyuan

Mr. HONG Xiaoyuan, aged 55, has been an Executive Director of the Company since June 2007, and has become the Chairman of the Company since November 2014. He is currently an Assistant General Manager of China Merchants Group Limited, a Director of China Merchants Holdings (Hong Kong) Company Limited and the Chairman and Chief Executive Officer of China Merchants Finance Holdings Company Limited, all of those companies are substantial shareholders of the Company. He is also a Vice Chairman of China Merchants Capital Investment Co., Ltd., a Director of China Merchants Bank Co., Ltd. (its shares are listed on both the Shanghai Stock Exchange and the Hong Kong Stock Exchange) and China Merchants Life Insurance Co., Ltd., and the Chairman of China Merchants Finance Investment Holdings Co., Ltd., Shenzhen CMB Qianhai Financial Asset Exchange Co., Ltd., China Merchants Union (BVI) Limited and China Merchants Innovation Investment Management Co., Ltd. He was a Director of China Merchants Securities Co., Ltd. (its shares are listed on both the Shanghai Stock Exchange and the Hong Kong Stock Exchange) from July 2007 to February 2016. Mr. HONG obtained his master's degree in Economics from Peking University and master of science degree from The Australian National University.

Mr. CHU Lap Lik, Victor

Mr. CHU Lap Lik, Victor, aged 60, 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 a pioneer of private equity investments in the PRC. Mr. CHU is currently Chairman of the Hong Kong-Europe Business Council. He has formerly served on the Central Policy Unit of the Hong Kong Government, the Council of the Hong Kong Stock Exchange, the Takeovers and Mergers Panel and the Advisory Committee of the Securities and Futures Commission. Outside of Hong Kong, Mr. CHU was a Foundation Board Member of the World Economic Forum in Geneva from 2003 to 2015 and currently co-chairs the Forum's International Business Council. He is also a Director of Grand Harbour Marina PLC, a company listed on the Malta Stock Exchange. Mr. CHU took his law degree at University College London where he is now an Honorary Fellow.

Mr. WANG Xiaoding

Mr. WANG Xiaoding, aged 49, has been an Executive Director of the Company since September 2014 and holds directorship in a number of subsidiaries of the Company. He has also been the Director and General Manager of the Investment Manager since May 2014. He served as the Chief Representative of the Investment Manager's Shenzhen Representative Office from March 2009 to May 2017. He served as the Chief Investment Officer of the Investment Manager from June 2011 to May 2014. Before joining the Investment Manager, Mr. WANG served as Chief Executive Officer of Guangxi Baihe Chemicals Corp., Chief Financial Officer of Guangxi Fenglin Group Co., Ltd., Senior Software Engineer of Thrive Media Corporation in Canada, Finance Manager of Wellkent International Corporation in Canada. Currently, Mr. WANG serves as a Director of Wuhan Rixin Technology Co., Ltd., China Media (Tianjin) Investment Management Co., Ltd., Jiangsu Huaer Quartz Materials Co., Ltd., Hwagain Group Co., Ltd. and China Credit Trust Co., Ltd., and a Supervisor of JIC Leasing Co., Ltd. Mr. WANG is licensed with the Securities and Futures Commission in Hong Kong as responsible officer. Mr. WANG studied in Peking University, People's (Renmin) University of China and University of Alberta in Canada, where he obtained his bachelor's degree in Geo-economics, master's degree in Regional Economics and master's degree in Economics, respectively.

Mr. TSE Yue Kit

Mr. TSE Yue Kit, aged 56, has been an Executive Director of the Company since November 2000 and holds directorship in the Investment Manager and a subsidiary of the Company. Mr. TSE is the General Manager in the Funds 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's degree with honours in Accountancy from the University of Exeter, UK.

DIRECTORS' REPORT (CONTINUED)

Ms. KAN Ka Yee, Elizabeth

Ms. KAN Ka Yee, Elizabeth (alternate to Mr. CHU Lap Lik, Victor), aged 60, has been an Alternate Director of the Company since May 1999. She is Managing Director of First Eastern Investment Group with which she is a founding member since its establishment in 1988. She serves on boards of various companies which include Evolution Securities Asia Limited, FE Securities Limited, Camper & Nicholsons Marina Investments Limited, Sustainable Development Capital (Asia) Limited and Grand Harbour Marina PLC. Ms. KAN was Deputy Managing Director and a Director of the Investment Manager from 1993 to 2006. She was re-appointed as a Director of the Investment Manager on 11 October 2017. Ms. KAN is licensed with the Securities and Futures Commission in Hong Kong. She is a Certified Public Accountant (U.S.A.) and a Fellow Member of the Hong Kong Institute of Certified Public Accountants. Ms. KAN is also a Member of the Hong Kong Securities and Investment Institute and a Fellow Member of the Hong Kong Institute of Directors. She began her professional career with the Hong Kong office of Arthur Andersen & Co. in the area of audit and business advisory services. Ms. KAN obtained her Bachelor of Science degree in Business Administration and Accounting and Bachelor of Arts degree in Economics from the University of Minnesota, Minneapolis, USA.

Mr. KE Shifeng

Mr. KE Shifeng, aged 52, has been a Non-executive Director of the Company since December 2009. He has 22 years investment experience. Between 1997 and 2011, Mr. KE was the senior portfolio manager for Martin Currie Investment Management Limited providing research and investment management services to its clients investing in the Greater China (including Taiwan) markets. Mr. KE and his team ran a range of China strategies, including the China Fund Inc. (CHN US, a NYSE listed company), Martin Currie China Hedge Fund, Taiwan Opportunities Fund and Martin Currie China A Share Fund with total assets under management reaching US$5.5 billion at the end of 2011. In November 2011, Mr. KE as a founding partner co-founded Open Door Group providing investment management services to foreign institutional clients investing in the Greater China area. In May 2017, Mr. KE with three senior investment analysts co-founded Hangzhou Heartland Investment Management Limited, an onshore investment management platform providing Renminbi investment management services to domestic high-net worth clients and institutional investors investing in the Greater China area. Mr. KE holds a law degree from Renmin University of China and an MBA degree from The University of Edinburgh, UK.

Mr. ZHANG Rizhong

Mr. ZHANG Rizhong, aged 49, was appointed as a Non-executive Director of the Company on 25 April 2017. He was appointed as the Chairman of the Investment Manager on 1 April 2017. He is currently the Director and General Manager of China Merchants Capital Investment Co., Ltd. and the General Manager of China Merchants Investment Development Company Limited. He is also a Director of China Merchants Union (BVI) Limited. He was the Deputy Financial Controller, Financial Controller, Deputy General Manager and Chief Financial Officer of China Merchants Port Holdings Company Limited (the shares of which are listed on The Stock Exchange of Hong Kong Limited), Assistant General Manager and Financial Controller of China Merchants Holdings (UK) Limited, Deputy General Manager of Finance Department of the China Merchants Group. Mr. ZHANG has joined the China Merchants Group over 20 years. He has extensive experience in corporate comprehensive management, financial management, risk management and control, investment negotiations, domestic and overseas asset management with significant scale. He on several occasions led a team responsible for issuing bonds and conducting equity financing in the international capital markets, and organised or deeply participated in merger and acquisition and fund-raising activities. He also has extensive experience in the investment of "One Belt One Road" strategic overseas projects and establishment of investment and fund-raising platform of the China Merchants Group. Mr. ZHANG served as a Supervisor of Shanghai International Port (Group) Co., Ltd. (the shares of which are listed on the Shanghai Stock Exchange) from December 2005 to March 2016, a Director of Shenzhen Chiwan Wharf Holdings Limited (the shares of which are listed on the Shenzhen Stock Exchange) from May 2014 to March 2015 and a Supervisor of Shenzhen Chiwan Wharf Holdings Limited from March to October 2015. Mr. ZHANG is a qualified accountant in China and a member of The Association of Chartered Certified Accountants, UK. Mr. ZHANG obtained his bachelor's degree in Economics from Central University of Finance and Economics, PRC and MBA degree from The University of Westminster, UK.

Mr. LIU Baojie

Mr. LIU Baojie, aged 54, has been an Independent Non-executive Director of the Company since December 2009. He has about 20 years of experience in the financial services industry. He is currently Chief Executive Officer of Huaneng Invesco WLR (Beijing) Investment Fund Management Company Ltd., and prior to this, he had worked for two other investment management companies focusing on China investment. Before that he held various positions with financial institutions, including Bank of America, ICEA Capital Limited and J.P. Morgan. Mr. LIU holds an MBA degree from University of Utah, USA.

Mr. TSANG Wah Kwong

Mr. TSANG Wah Kwong, aged 65, has been an Independent Non-executive Director of the Company since September 2012. He is a former partner of Hong Kong and China firm of PricewaterhouseCoopers. He has over 30 years of experience in auditing and providing support for initial public offerings and acquisition transactions. Currently, Mr. TSANG is an Independent Non-executive Director of a number of companies, including Sihuan Pharmaceutical Holdings Group Ltd. (Stock Code: 460.HK), TK Group (Holdings) Limited (Stock Code: 2283.HK), China Animation Characters Company Limited (Stock Code: 1566.HK) and Ping An Securities Group (Holdings) Limited (Stock Code: 231.HK). Mr. TSANG was an Independent Director of Agria Corporation (formerly listed on the New York Stock Exchange) from August 2011 to October 2017, a Director of PGG Wrightson Limited (listed on the New Zealand Stock Exchange) from December 2014 to October 2017 and an Independent Non-executive Director of PanAsialam Holdings Company Limited (Stock Code: 2078.HK) from January 2013 to January 2016. Mr. TSANG is a Fellow Member of the Hong Kong Institute of Certified Public Accountants, a Member of the Chinese Institute of Certified Public Accountants, and a Fellow Member of The Association of Chartered Certified Accountants, UK. Mr. TSANG received a bachelor's degree of Business Administration from the Chinese University of Hong Kong.

Dr. LI Fang

Dr. LI Fang, aged 60, has been an Independent Non-executive Director of the Company since October 2014. She is currently the Managing Director of Yuanta Securities (Hong Kong) Company Limited and the Vice Chairman of CR Yuanta Fund Management Co., Ltd. Dr. LI has over 20 years of professional experience in securities, asset management, insurance and banking. Dr. LI was a Senior Research Assistant in Financial Research Bureau at the headquarters of the People's Bank of China, a Research Fellow at the Asia-Pacific Operations of Aetna International Inc., the Head of Research Centre for Asian/Pacific Regional Pensions of ING Group, a Senior Business Advisor of Global Retirement Services of ING Group and the Chief Strategist at Corporate Finance of Yuanta Securities (Hong Kong) Company Limited. Dr. LI holds a doctorate degree in Economics from Monash University in Australia, a master's degree in Banking and Finance from the Graduate School of the People's Bank of China (now known as PBC School of Finance, Tsinghua University) and a master's degree in Public Administration from the International Christian University in Japan.

DIRECTORS OF SUBSIDIARIES

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

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SHARES

As at 31 December 2017, 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 2017, 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 2017.

EQUITY-LINKED AGREEMENTS

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

ARRANGEMENTS TO ACQUIRE SHARES OR DEBENTURES

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

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS OF SIGNIFICANCE

Details of the sub-participation scheme are set out on pages 33 to 36 of the Annual Report. Save as disclosed, no transactions, arrangements or contracts of significance, to which the Company, its parent company, its subsidiaries or fellow subsidiaries was a party and in which a Director of the Company or his/her connected entities had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

COMPETING INTERESTS

Mr. HONG Xiaoyuan is a Vice Chairman of and Mr. ZHANG Rizhong is the Director and General Manager 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. HONG, Mr. ZHANG, 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.

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

DIRECTORS' SERVICE CONTRACTS

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

PERMITTED INDEMNITY PROVISION

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

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

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2017, the following persons, other than a Director or chief executives of the Company, had interests in the shares of the Company as recorded in the register of the Company required to be kept under Section 336 of the SFO:

Name of shareholder	Long/ short position	Capacity	Number of ordinary shares interested	Percentage of total issued shares
China Merchants Group Limited (Note 2)	Long position	Interest of controlled corporation	42,022,041	27.59%
China Merchants Steam Navigation Company Limited (Note 3)	Long position	Interest of controlled corporation	42,022,041	27.59%
China Merchants Holdings (Hong Kong) Company Limited (Note 1)	Long position	Interest of controlled corporation	42,022,041	27.59%
China Merchants Finance Holdings Company Limited (Note 2)	Long position	Interest of controlled corporation	42,022,041	27.59%
China Merchants Financial Services Limited (Note 2)	Long position	Interest of controlled corporation	42,022,041	27.59%
Good Image Limited	Long position	Beneficial owner	42,022,041	27.59%
Lazard Asset Management LLC	Long position	Investment manager	28,685,391	18.83%

Note 1: China Merchants Holdings (Hong Kong) Company Limited is deemed to have corporate interests in the shares by virtue of its controlling shareholding (i.e. 99.34%) in the company whose name is set out immediately under it.

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

Note 3: China Merchants Steam Navigation Company Limited is deemed to have corporate interests in the shares by virtue of its controlling shareholding (i.e. 89.45%) in the company whose name is set out immediately under it.

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

PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of its Directors, throughout the year of 2017, there is sufficient public float of not less than 25% of the Company's issued shares as required under the Listing Rules.

CONTINUING CONNECTED TRANSACTION

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

Investment Management Agreement

China Merchants China Investment Management Limited, a company incorporated in Hong Kong, is the Investment Manager of the Company for both listed and unlisted investments. Mr. CHU Lap Lik, Victor, Mr. WANG Xiaoding, Mr. TSE Yue Kit, Mr. ZHANG Rizhong (appointed as a Director of both the Company and the Investment Manager on 25 April 2017 and 1 April 2017, respectively), Ms. KAN Ka Yee, Elizabeth (appointed as a Director of the Investment Manager on 11 October 2017) and Mr. LI Yinquan (resigned as a Director of both the Company and the Investment Manager on 25 April 2017 and 1 April 2017, respectively) are Directors of both the Company and the Investment Manager. Mr. CHU Lap Lik, Victor and Ms. KAN Ka Yee, Elizabeth have indirect beneficial interests in the Investment Manager. The Investment Manager is a subsidiary of a substantial shareholder of the Company and is therefore a connected person of the Company under Chapter 14A of the Listing Rules. The existing Investment Management Agreement entered into between the Company and the Investment Manager (the "**Existing Management Agreement**") on 15 October 2015 became effective on 1 January 2016 and is for a fixed term ending on 31 December 2018.

For the year ended 31 December 2017, the management fees which were calculated based on a fixed percentage on the value of the Group's adjusted assets on a quarterly basis as stipulated in the Existing Management Agreement totaling US$12,303,271 (2016: US$10,964,452) were paid or payable to the Investment Manager. A performance fee of US$7,560,103 (2016: Nil) was accrued by the Company under the Existing Management Agreement. It was calculated based on a fixed percentage on the agreed increment of the Group's net asset value after certain adjustments as stipulated in the Existing Management Agreement.

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

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

2. on normal commercial terms or better; and

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

CONTINUING CONNECTED TRANSACTION (CONTINUED)

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

Save as disclosed above, details of significant related party transactions are disclosed in note 28 to the consolidated financial statements.

EVENT AFTER THE REPORTING PERIOD

Details of significant event occurring after the reporting period are set out in note 31 to the consolidated financial statements.

AUDITOR

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

On behalf of the Board

Mr. ZHANG Rizhong
Director

Hong Kong, 28 March 2018

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE

The Company is committed to maintaining high standards of corporate governance. The Board believes that good corporate governance practices are important to protect shareholders' interests and to promote investor confidence. The Company complies with the relevant requirements under the Hong Kong Companies Ordinance, the Hong Kong Securities and Futures Ordinance, the Listing Rules and the US Foreign Account Tax Compliance Act. Further, the Company has complied with all the code provisions set out in Appendix 14 to the Listing Rules (Corporate Governance Code (the "**Code**")) throughout the year under review, except for the deviations as stated below:

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

Besides, owing to a business trip, the Chairman, Mr. HONG Xiaoyuan, has given an apology for not being able to attend and chair the annual general meeting of the Company which was held on 26 May 2017.

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

BOARD OF DIRECTORS

As at 31 December 2017, the Board consisted of four Executive Directors, two Non-executive Directors and three Independent Non-executive Directors as defined by the Listing Rules. The biography of the Directors are set out on pages 40 to 44 of the Annual Report.

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

BOARD OF DIRECTORS (CONTINUED)

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

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

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

BOARD OF DIRECTORS (CONTINUED)

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

	Attendance/number of regular meetings during the Director's term of office in 2017
Executive Directors:	
Mr. HONG Xiaoyuan *(Chairman)*	2/2
Mr. CHU Lap Lik, Victor	0/2
Mr. WANG Xiaoding	2/2
Mr. TSE Yue Kit	2/2
Mr. LI Yinquan *(resigned on 25 April 2017)*	0/1
Non-executive Directors:	
Mr. KE Shifeng	2/2
Mr. ZHANG Rizhong *(appointed on 25 April 2017)*	1/1
Independent Non-executive Directors:	
Mr. LIU Baojie	2/2
Mr. TSANG Wah Kwong	2/2
Dr. LI Fang	2/2
Mr. ZHU Li *(resigned on 25 April 2017)*	0/1
Alternate Director:	
Ms. KAN Ka Yee, Elizabeth *(alternate to Mr. CHU Lap Lik, Victor)*	2/2

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

BOARD OF DIRECTORS (CONTINUED)

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

Audit Committee

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

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

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

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

	Attendance/ number of meetings
Independent Non-executive Directors:	
Mr. TSANG Wah Kwong *(Chairman of the Audit Committee)*	2/2
Mr. LIU Baojie	2/2
Dr. LI Fang *(appointed on 25 April 2017)*	1/1
Mr. ZHU Li *(resigned on 25 April 2017)*	0/1

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 2017;
- reviewed the interim report and the interim results announcement for the six months ended 30 June 2017;
- reviewed the audit plan for the year 2017 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 2016; and
- considered the internal controls assessment report prepared by the international accountancy firm.

Nomination Committee and Appointment of Directors

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

During the year under review, the Nomination Committee has resolved to recommend the appointment of Mr. ZHANG Rizhong as Non-executive Director of the Company and to recommend the renewal of appointment of Mr. WANG Xiaoding and Dr. LI Fang as Executive Director and Independent Non-executive Director of the Company, respectively. It has also reviewed the structure, size and composition of the Board in a meeting. The attendance of individual members of the Nomination Committee is as follows:

	Attendance/ number of meetings
Executive Director:	
Mr. HONG Xiaoyuan *(Chairman of the Nomination Committee)*	2/2
Independent Non-executive Directors:	
Mr. TSANG Wah Kwong	2/2
Dr. LI Fang *(appointed on 25 April 2017)*	1/1
Mr. ZHU Li *(resigned on 25 April 2017)*	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 only until the next following annual general meeting ("**AGM**") or until the next following general meeting of the Company in the case of filling a casual vacancy, and shall then be eligible for re-election.

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, to approve transactions (investments or realisations) of over US$20 million each (effective from 5 February 2010) and to supervise the day-to-day management functions of the Investment Manager. Currently, the Committee members include three Executive Directors and one Non-executive Director.

During the year under review, the Investment Committee has considered and approved the proposal relating to disposal of all the A shares in IBC held by the Group, the disposal proposal relating to the project of Sanhome Pharmaceutical and the investment proposal relating to the project of Qinghai Lake Tourism.

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

	Attendance/ number of meetings
Executive Directors:	
Mr. HONG Xiaoyuan *(Chairman of the Investment Committee)*	2/2
Mr. CHU Lap Lik, Victor	1/2
Mr. WANG Xiaoding	2/2
Mr. LI Yinquan *(resigned on 25 April 2017)*	0/0
Non-executive Director:	
Mr. ZHANG Rizhong *(appointed on 25 April 2017)*	2/2
Alternate Director:	
Ms. KAN Ka Yee, Elizabeth *(alternate to Mr. CHU Lap Lik, Victor)*	1/2

BOARD DIVERSITY POLICY

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

Summary of the Policy

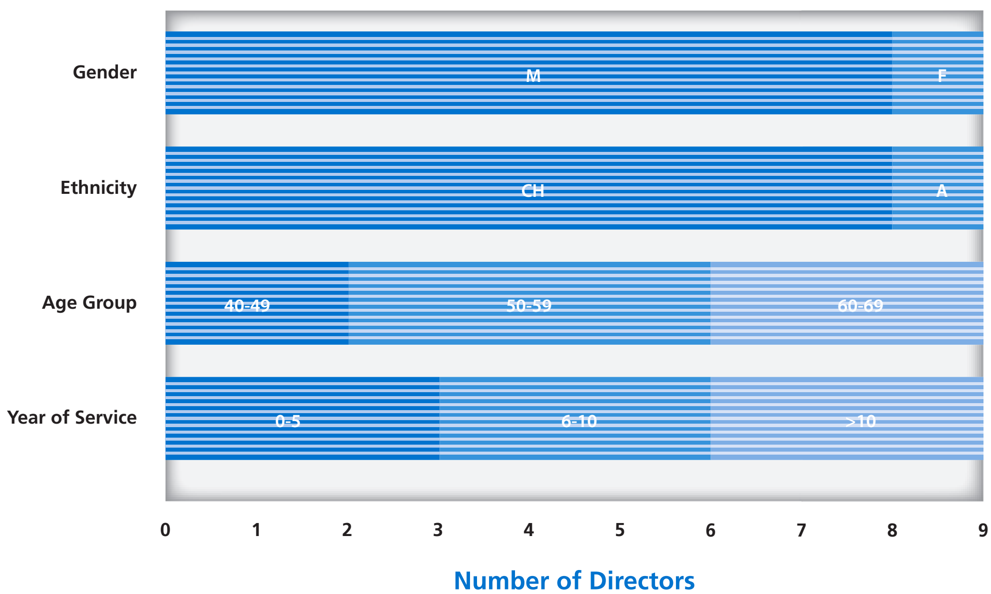
The Company sees increasing diversity at the Board level as an essential element in supporting the attainment of its strategic objectives and its sustainable development. In designing the Board's composition, the Board diversity has been considered from a number of aspects, including but not limited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

Measurable Objectives

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

Implementation

As at 31 December 2017, the Board's composition under major diversified perspectives was summarised as follows:



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

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Mr. HONG Xiaoyuan is the Chairman of the Company. The functions of the Chief Executive Officer have been undertaken by the Investment Manager. The Director and General Manager of the Investment Manager is Mr. WANG Xiaoding, who is also a Director of the Company. The roles of the Chairman and Chief Executive Officer are segregated and are not exercised by the same individual.

NON-EXECUTIVE DIRECTORS

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

TRAINING AND SUPPORT FOR DIRECTORS

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

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

	Type of CPD
Executive Directors:	
Mr. HONG Xiaoyuan *(Chairman)*	a,c
Mr. CHU Lap Lik, Victor	a,c
Mr. WANG Xiaoding	a,c
Mr. TSE Yue Kit	a,c
Non-executive Directors:	
Mr. KE Shifeng	a,b,c
Mr. ZHANG Rizhong	a,c
Independent Non-executive Directors:	
Mr. LIU Baojie	a,c
Mr. TSANG Wah Kwong	a,c
Dr. LI Fang	a,c
Alternate Director:	
Ms. KAN Ka Yee, Elizabeth *(alternate to Mr. CHU Lap Lik, Victor)*	a,c

TRAINING AND SUPPORT FOR DIRECTORS (CONTINUED)

Notes:

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

b: giving talks at seminars, conferences, or forums

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

DIRECTORS' SECURITIES TRANSACTIONS

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

REMUNERATION OF DIRECTORS

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

The remuneration of the Directors is determined by the shareholders at the AGM of the Company. At the AGM of the Company held on 26 May 2017, it was resolved that the remuneration of the Directors for the year ended 31 December 2017 be fixed by the Board. All the Executive Directors did not receive any remuneration from the Company for the year ended 31 December 2017 (2016: Nil). The total remuneration payable to other Directors for the year ended 31 December 2017 is disclosed in note 10 to the consolidated financial statements.

AUDITOR'S REMUNERATION

The Company has appointed Deloitte Touche Tohmatsu as the Company's independent auditor. During the year under review, the fees paid or payable to the Company's independent auditor for audit services provided is US$152,817 and for non-audit services provided is US$62,529 which was mainly for the purpose of reviewing the internal control systems of the Company and the circular relating to the mandate for the proposed disposal of shares in IBC.

FINANCIAL REPORTING

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

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

The statement of the independent auditor of the Company about their reporting responsibilities on the financial statements is set out in the Independent Auditor's Report on pages 71 to 73.

RISK MANAGEMENT AND INTERNAL CONTROL

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

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

RISK MANAGEMENT AND INTERNAL CONTROL (CONTINUED)

Risk Governance Structure

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

Risk Assessment Methodology

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

Review on Effectiveness of Risk Management and Internal Control Systems

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

In addition, the Board has appointed an international accountancy firm to review the internal control systems of the Company on an on-going basis. The review covered all material controls, including financial, operational and compliance controls, as well as risk management functions.

RISK MANAGEMENT AND INTERNAL CONTROL (CONTINUED)

Board's Responsibility

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

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

Communication of Risk Events

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

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

- has set out written policies and procedures in relation to the handling of inside information under the regulatory requirements of Hong Kong, including but not limited to maintenance of confidentiality, prohibition of insider dealings by the management;
- is aware of its obligation under the Listing Rules;
- conducts its affairs with closely reference to the "Guidelines on Disclosure of Inside Information" issued by the Securities and Futures Commission of Hong Kong; and
- has set out rules and procedures in dealing with enquiries from regulatory bodies, trading halt and additional disclosures to correct a false market.

COMPANY SECRETARY

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

CONSTITUTIONAL DOCUMENTS

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

SHAREHOLDERS' RIGHTS

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

Convening of General Meeting on Request

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

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

Putting Forward Proposals at AGM/General Meeting

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

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

SHAREHOLDERS' RIGHTS (CONTINUED)

Putting Forward Proposals at AGM/General Meeting (continued)

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

Enquiries to the Board

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

INVESTOR RELATIONSHIP AND COMMUNICATION

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

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

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

INVESTOR RELATIONSHIP AND COMMUNICATION (CONTINUED)

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

	Attendance/number of meetings	
	EGM held on 10 March 2017	**AGM held on 26 May 2017**
Executive Directors:		
Mr. HONG Xiaoyuan *(Chairman)*	0/1	0/1
Mr. CHU Lap Lik, Victor	0/1	0/1
Mr. WANG Xiaoding	1/1	1/1
Mr. TSE Yue Kit	1/1	1/1
Mr. LI Yinquan *(resigned on 25 April 2017)*	0/1	0/0
Non-executive Directors:		
Mr. KE Shifeng	0/1	0/1
Mr. ZHANG Rizhong *(appointed on 25 April 2017)*	0/0	0/1
Independent Non-executive Directors:		
Mr. LIU Baojie	0/1	0/1
Mr. TSANG Wah Kwong	1/1	1/1
Dr. LI Fang	0/1	0/1
Mr. ZHU Li *(resigned on 25 April 2017)*	0/1	0/0
Alternate Director:		
Ms. KAN Ka Yee, Elizabeth *(alternate to Mr. CHU Lap Lik, Victor)*	1/1	1/1

ENVIRONMENTAL POLICY

The Company is an investment company listed under Chapter 21 of the Listing Rules. The Company has appointed an Investment Manager to manage its investment portfolio as well as corporate affairs and to deal with its day-to-day administration under the Investment Management Agreement. The Company, therefore, has no salaried employees, premises, manufacturing or other operations. The Investment Manager is requested to take into account the environmental matters (for example, minimising use of paper, the using of recycled paper, etc.) when managing the corporate affairs of the Company and to take into account the environmental, social and governance policies of potential investee companies as part of its investment process. Please refer to pages 65 to 68 of the Annual Report for the Company's Environmental, Social and Governance Report.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

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

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

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

This report summarises the ESG policies in addressing the material ESG issues, as well as the compliance with laws and regulations relevant to those issues, of the Company and the Investment Manager, for the year ended 31 December 2017.

ENVIRONMENTAL PROTECTION

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

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

In 2017, the Company has implemented the following environmental initiatives:

- using recycled paper for printing the 2017 interim report;
- using double-sided printing and recycled paper for photocopying as much as possible;
- using electronic storage and communication wherever possible; and
- reducing travel through teleconferencing.

There were no non-compliance cases noted in relation to environmental laws and regulations for the year 2017.

SOCIAL COMMITMENT

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

Employment

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

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

There were no non-compliance cases noted in relation to employment laws and regulations for the year 2017.

Health and Occupational Safety

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

There were no non-compliance cases noted in relation to health and safety laws and regulations during the year 2017.

Development and Training

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

SOCIAL COMMITMENT (CONTINUED)

Labour Standards

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

There were no non-compliance cases noted in relation to labour standards laws and regulations during the year 2017.

Supply Chain Management

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

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

Responsible Investment

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

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

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

There were no non-compliance cases noted in relation to the Company's investment practices during the year 2017.

SOCIAL COMMITMENT (CONTINUED)

Anti-corruption

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

There were no non-compliance cases noted in relation to corruption related laws and regulations during the year 2017.

Community Investment

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

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

Deloitte. 德勤

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

Opinion

We have audited the consolidated financial statements of China Merchants China Direct Investments Limited (the "**Company**") and its subsidiaries (collectively referred to as the "**Group**") set out on pages 74 to 119, which comprise the consolidated statement of financial position as at 31 December 2017, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2017, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("**HKFRSs**") issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**") and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

Basis for Opinion

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

Key Audit Matters

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

Key audit matter	How our audit addressed the key audit matter
Valuation of Level 3 financial instruments	
We identified the valuation of Level 3 financial instruments as a key audit matter due to the degree of complexity involved in valuing the financial assets and liabilities, the significance of the judgment and estimates made by the management and the subjectivity in determination of Level 3 fair value given the lack of availability of market-based data as disclosed in note 5 to the consolidated financial statements. Please refer to note 5 to the consolidated financial statements for further details of the valuation techniques and significant unobservable inputs of material Level 3 financial instruments. The total fair value of financial assets and liabilities designated at fair value through profit or loss classified as Level 3, amounted to US$461.5 million and US$1.3 million respectively as at 31 December 2017 as disclosed in note 5 to the consolidated financial statements. The valuations of the aforesaid Level 3 financial instruments were performed by an independent valuer.	We obtained an understanding of the valuation techniques and the processes performed by the independent valuer and the management's review process of the work of the independent valuer with respect to the valuation of Level 3 financial instruments. We evaluated the competence, integrity and independence of the independent valuer; and their experiences in conducting valuation of similar financial instruments. We obtained the respective independent valuation reports and discussed with the management about the valuation of the Level 3 financial instruments, and together with our own internal valuation specialists, where necessary: (i) evaluated the appropriateness of the valuation techniques and assumptions based on the industry knowledge; (ii) evaluated the appropriateness of the key inputs by independently checking to the relevant external market data and/or relevant historical financial information; and (iii) evaluated the rationale of the management's judgment on the key inputs.

Other Information

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

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

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

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

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

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

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

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion solely to you, as a body, in accordance with section 405 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

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

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

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

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

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

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

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

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

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

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

Deloitte Touche Tohmatsu
Certified Public Accountants

Hong Kong
28 March 2018

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2017

	Notes	2017 US$	2016 US$
Net gain (loss) on financial assets designated at fair value through profit or loss	6	174,206,045	(35,548,107)
Investment income	7	15,207,807	25,999,558
Other gains		442,792	293,565
Administrative expenses		(21,022,596)	(12,484,394)
Profit (loss) before taxation	9	168,834,048	(21,739,378)
Taxation	12	(50,931,214)	6,141,714
Profit (loss) for the year		117,902,834	(15,597,664)
Other comprehensive income (expense) for the year			
Item that will not be reclassified subsequently to profit or loss			
Exchange difference arising on translation		35,547,816	(35,564,437)
Total comprehensive income (expense) for the year		153,450,650	(51,162,101)
Profit (loss) for the year attributable to owners of the Company		117,902,834	(15,597,664)
Total comprehensive income (expense) for the year attributable to owners of the Company		153,450,650	(51,162,101)
Basic earnings (loss) per share	14	0.774	(0.102)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2017

	Notes	2017 US$	2016 US$
Non-current asset			
Financial assets designated at fair value through profit or loss	15	**448,753,156**	346,707,928
Current assets			
Financial assets designated at fair value through profit or loss	15	**376,210,439**	295,938,706
Other receivables	16	**96,135**	7,683,014
Bank balances and cash	17	**47,767,265**	37,491,601
		424,073,839	341,113,321
Current liabilities			
Other payables	18	**38,172,583**	27,405,955
Taxation payable	19	**5,285,658**	15,921,476
		43,458,241	43,327,431
Net current assets		**380,615,598**	297,785,890
Total assets less current liabilities		**829,368,754**	644,493,818
Non-current liabilities			
Financial liabilities designated at fair value through profit or loss	20	**1,451,162**	1,221,641
Deferred taxation	21	**122,291,478**	81,956,732
		123,742,640	83,178,373
Net assets		**705,626,114**	561,315,445
Capital and reserves			
Share capital	23	**139,348,785**	139,348,785
Reserves		**99,871,339**	63,190,578
Retained profits		**466,405,990**	358,776,082
Equity attributable to owners of the Company		**705,626,114**	561,315,445
Net asset value per share	25	**4.632**	3.685

The consolidated financial statements on pages 74 to 119 were approved and authorised for issue by the Board of Directors on 28 March 2018 and are signed on its behalf by:

Mr. ZHANG Rizhong
Director

Mr. WANG Xiaoding
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2017

	Share capital US$	Translation reserve US$	General reserve US$	Retained profits US$	Equity attributable to owners of the Company US$
Balance at 1 January 2016	139,348,785	85,672,144	11,950,848	398,355,721	635,327,498
Loss for the year	—	—	—	(15,597,664)	(15,597,664)
Exchange difference on translation	—	(35,564,437)	—	—	(35,564,437)
Total comprehensive expense for the year	—	(35,564,437)	—	(15,597,664)	(51,162,101)
2015 final and special dividends paid (note 13)	—	—	—	(22,849,952)	(22,849,952)
Transfer to general reserve	—	—	1,132,023	(1,132,023)	—
Balance at 31 December 2016	139,348,785	50,107,707	13,082,871	358,776,082	561,315,445
Balance at 1 January 2017	**139,348,785**	**50,107,707**	**13,082,871**	**358,776,082**	**561,315,445**
Profit for the year	**—**	**—**	**—**	**117,902,834**	**117,902,834**
Exchange difference on translation	**—**	**35,547,816**	**—**	**—**	**35,547,816**
Total comprehensive income for the year	**—**	**35,547,816**	**—**	**117,902,834**	**153,450,650**
2016 final dividend paid (note 13)	**—**	**—**	**—**	**(9,139,981)**	**(9,139,981)**
Transfer to general reserve	**—**	**—**	**1,132,945**	**(1,132,945)**	**—**
Balance at 31 December 2017	**139,348,785**	**85,655,523**	**14,215,816**	**466,405,990**	**705,626,114**

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 2017

	2017 US$	2016 US$
OPERATING ACTIVITIES		
Profit (loss) before taxation	168,834,048	(21,739,378)
Adjustments for:		
Interest income	(269,311)	(360,186)
Dividend income from equity investments	(14,938,496)	(25,639,372)
Net (gain) loss on financial assets designated at fair value through profit or loss	(174,206,045)	35,548,107
Operating cash flows before movements in working capital	(20,579,804)	(12,190,829)
Proceeds from disposal of financial assets designated at fair value through profit or loss	72,919,073	56,929,045
Return of capital from financial assets designated at fair value through profit or loss	4,584,015	1,165,985
Purchases of financial assets designated at fair value through profit or loss	(47,978,329)	(60,617,104)
(Increase) decrease in other receivables	(35,212)	3,149
Increase (decrease) in other payables	11,469,831	(2,322,585)
Decrease in financial liabilities designated at fair value through profit or loss	(124,423)	(27,799)
Cash generated from (used in) operations	20,255,151	(17,060,138)
Interest received	225,377	822,250
Dividends received	22,604,521	30,205,913
Income taxes paid	(28,127,865)	(3,207,820)
NET CASH GENERATED FROM OPERATING ACTIVITIES	14,957,184	10,760,205
CASH USED IN FINANCING ACTIVITIES		
Dividends paid	(9,139,981)	(22,849,952)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	5,817,203	(12,089,747)
CASH AND CASH EQUIVALENTS AS AT 1 JANUARY	37,491,601	53,916,743
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	4,458,461	(4,335,395)
CASH AND CASH EQUIVALENTS AS AT 31 DECEMBER	47,767,265	37,491,601

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

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 subsidiaries are set out in note 29.

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

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

Amendments to HKFRSs that are mandatorily effective for the current year

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

Amendments to HKAS 7	Disclosure initiative
Amendments to HKAS 12	Recognition of deferred tax assets for unrealised losses
Amendments to HKFRS 12	As part of the annual improvements to HKFRSs 2014 – 2016 cycle

Amendments to HKAS 7 *Disclosure Initiative*

The Group has applied these amendments for the first time in the current year. The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both cash and non-cash changes. In addition, the amendments also require disclosures on changes in financial assets if cash flows from those financial assets were, or future cash flows will be, included in cash flows from financing activities.

Specifically, the amendments require the following to be disclosed: (i) changes from financing cash flows; (ii) changes arising from obtaining or losing control of subsidiaries or other businesses; (iii) the effect of changes in foreign exchange rates; (iv) changes in fair values; and (v) other changes.

A reconciliation between the opening and closing balances of these items is provided in note 26. Consistent with the transition provisions of the amendments, the Group has not disclosed comparative information for the prior year. Apart from the additional disclosure in note 26, the application of these amendments has had no impact on the Group's consolidated financial statements.

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

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

New and amendments to HKFRSs in issue but not yet effective

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

HKFRS 9	Financial instruments[1]
HKFRS 15	Revenue from contracts with customers and the related amendments[1]
Amendments to HKFRS 10 and HKAS 28	Sale or contribution of assets between an investor and its associate or joint venture[2]

[1] Effective for annual periods beginning on or after 1 January 2018.

[2] Effective for annual periods beginning on or after a date to be determined.

HKFRS 9 *Financial Instruments*

HKFRS 9 introduces new requirements for the classification and measurement of financial assets, financial liabilities, general hedge accounting and impairment requirements for financial assets.

Key requirements of HKFRS 9 which are relevant to the Group are:

- All recognised financial assets that are within the scope of HKFRS 9 are required to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are generally measured at fair value through other comprehensive income. 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 AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (CONTINUED)

New and amendments to 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 attributable to a financial liabilities' credit risk are not subsequently reclassified to profit or loss. Under HKAS 39 *Financial Instruments: Recognition and Measurement* ("**HKAS 39**"), the entire amount of the change in the fair value of the financial liability designated at fair value through profit or loss is presented in profit or loss.

- In relation to the impairment of financial assets, HKFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under HKAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

The Group has reviewed its financial assets and liabilities and is expecting the following impact from the adoption of HKFRS 9 on 1 January 2018:

- Classification of financial assets designated at fair value through profit or loss as disclosed in note 15 - Based on the assessment undertaken to date, the Group would revoke its previous designation of financial assets as measured at fair value through profit or loss at initial application date. Equity securities as disclosed in note 15 are qualified for designation as measured at fair value through other comprehensive income under HKFRS 9, however, the Group does not elect the option for the designation and will measure these securities at fair value with subsequent fair value gains or losses to be recognised in profit or loss. For convertible loans as disclosed in note 15, the contractual cash flows do not represent solely payments of principal and interest on the principal outstanding. Accordingly, it is required to be classified as financial assets at fair value through profit or loss;

- Classification of financial liabilities designated at fair value through profit or loss as disclosed in note 20 - Based on the assessment undertaken to date, the Directors consider the Group would continue to designate these liabilities as measured at fair value through profit or loss and the effect of changes in the credit risk of these liabilities is insignificant; and

- Except for financial assets which are subject to expected credit loss model under HKFRS 9, all other financial assets and liabilities will be measured on the same bases as currently under HKAS 39.

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

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

HKFRS 9 *Financial Instruments* (continued)

- *Impairment of financial assets* - The Group's financial assets measured at amortised cost will be subject to the new impairment model that requires recognition of impairment provisions based on expected credit losses resulting in earlier provision of these losses rather than only incurred credit losses as is the case under HKAS 39 *Financial Instruments: Recognition and Measurement*. These financial assets include:

  – Other receivables
  – Bank balances

In general, the Directors anticipate that the application of the expected credit loss model of HKFRS 9 will result in earlier provision of credit losses which are not yet incurred in relation to the Group's financial assets measured at amortised costs and other items that are subject to the impairment provisions upon application of HKFRS 9 by the Group.

Based on the assessment by the Directors, if the expected credit loss model was to be applied by the Group, an immaterial amount of impairment loss would be recognised by the Group as at 1 January 2018 and no material impact to the consolidated financial statements.

Except for the above, the management anticipates that the application of other new and amendments to HKFRSs will have no material impact on the amounts reported in the Group's consolidated financial statements in the foreseeable future.

3. SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The principal accounting policies are set out below.

Basis of consolidation

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

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

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

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

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

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

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 designated 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 designated at FVTPL are recognised immediately in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (continued)

Financial assets

Financial assets are classified into the following categories - financial assets designated at FVTPL and loans and receivables. 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.

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 other than those classified as financial assets designated at FVTPL, of which interest income is included in net gain or loss.

Financial assets designated at FVTPL

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (continued)

Financial assets (continued)

Financial assets designated at FVTPL (continued)

- 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 designated at FVTPL are measured at fair value, with any gains or losses arising from remeasurement recognised directly in profit or loss in the period in which they arise. The net gain or loss recognised in profit or loss excludes any dividend earned on the financial assets.

Loans and receivables

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

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

Impairment of financial assets

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (continued)

Financial assets (continued)

Impairment of financial assets (continued)

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

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

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

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

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

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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (continued)

Financial liabilities and equity instruments (continued)

Equity instruments

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

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

Financial liabilities designated at FVTPL

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

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

Financial liabilities designated at FVTPL are measured at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss includes any interest paid on the financial liabilities, if any. Fair value is determined in the manner described in note 5.

Financial liabilities measured at amortised cost

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (continued)

Financial liabilities and equity instruments (continued)

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 (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis.

Derecognition

The Group derecognises a financial asset only when the contractual rights to receive cash flows from the assets expire, or when it transfers the financial asset substantially all the risks and rewards of ownership of the asset to another entity. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received is recognised in profit or loss.

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

Revenue recognition

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recognised at the rates of exchange prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Taxation (continued)

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, except where the Group as a parent is able to control the reversal of the temporary difference and it is probable that the temporary difference will not be reversed in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

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

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

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. 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 designated at FVTPL

As indicated in notes 5, 15 and 20, the Group selects appropriate valuation techniques for financial instruments not quoted in an active market. Valuation techniques commonly used by market practitioners are applied. The fair values of unlisted financial assets 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.

5. FINANCIAL INSTRUMENTS

Categories of financial instruments

	2017 US$	2016 US$
Financial assets		
Designated at FVTPL	**824,963,595**	642,646,634
Loans and receivables (including bank balances and cash)	**47,863,400**	45,174,615
Financial liabilities		
Amortised cost	**18,565,096**	7,798,468
Designated at FVTPL	**1,451,162**	1,221,641

Financial risk management objective and policies

The Group's major financial instruments include financial assets designated at FVTPL, other receivables, bank balances and cash, other payables and financial liabilities designated at FVTPL. 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 undertakes certain transactions which expose the Group to foreign currency risk. The related balances include 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 currently does not have any foreign currency hedging policy. However, the Group monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

5. FINANCIAL INSTRUMENTS (CONTINUED)

Market risk (continued)

Currency risk (continued)

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

	2017 US$	2016 US$
Monetary assets		
USD	7,609,974	5,641,570
Hong Kong Dollar	3,252,447	16,344,862
Monetary liabilities		
USD	15,635,719	4,243,167
Hong Kong Dollar	400,157	394,719

Foreign currency sensitivity

For the currency risk of the Group, if the exchange rate of RMB against USD had increased/decreased by 5%, the Group's after taxation result for the year would increase/decrease by US$402,000 (2016: decrease/increase by US$70,000). If the exchange rate of RMB against Hong Kong Dollar had increased/decreased by 5%, the Group's after taxation result for the year would decrease/increase by US$143,000 (2016: decrease/increase by US$800,000).

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

Interest rate risk

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

5. FINANCIAL INSTRUMENTS (CONTINUED)

Market risk (continued)

Interest rate risk (continued)

Interest rate sensitivity

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

Price risk

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

Price sensitivity

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

If the market bid prices of the listed equity securities had been 20% (2016: 20%) higher/lower, the Group's after taxation result for the year would increase/decrease by US$59,268,000 (2016: US$43,541,000). 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% (2016: 20%) higher/lower, the Group's after taxation result for the year would increase/decrease by US$67,098,000 (2016: US$55,202,000). This is mainly attributable to the changes in fair values of the investments held by the Group.

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

Credit risk

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

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

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 credit risk on such authorised institutions is low.

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

5. FINANCIAL INSTRUMENTS (CONTINUED)

Liquidity risk

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

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

The Group's financial liabilities represent other payables (management fee accruals and performance fee accruals) and financial liabilities designated at FVTPL related to sub-participation agreements. Apart from financial liabilities designated at FVTPL which is repayable upon realisation of the corresponding investments, the other financial liabilities are all interest free and repayable on demand. In the opinion of the management, 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.

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 2017 US$	31 December 2016 US$	Fair value hierarchy	Valuation techniques	Significant unobservable input(s)	31 December 2017 Range	31 December 2016 Range	Relationship of unobservable inputs to fair value	31 December 2017 Increase(+)/ decrease(-) in fair value of assets if 10% increase/ decrease of the unobservable inputs (Note 2) US$	31 December 2016 Increase(+)/ decrease(-) in fair value of assets if 10% increase/ decrease of the unobservable inputs (Note 2) US$
Financial assets designated at FVTPL										
Listed equity securities classified as financial assets designated at FVTPL (Note 1)	363,477,251	276,005,464	Level 1	Quoted bid prices in active market	N/A	N/A	N/A	N/A	N/A	N/A
Listed equity securities within lock-up period classified as financial assets designated at FVTPL (Note 1)	24,402,375	10,063,428	Level 3	Quoted bid price in active market and adjusted for lack of marketability	- Discount rate for lack of marketability	4.4% - 4.7%	19%	The higher the discount rate, the lower the fair value	-116,000/ +116,000	-236,000/ +236,000
Equity securities (including equity securities traded on New Third Board and unlisted equity securities) and unlisted preferred equity classified as financial assets designated at FVTPL (Note 1)	296,835,554	290,932,377	Level 3	Market comparable companies	- Earnings multiples - Revenue multiples - Book value multiples	35.7x - 90.6x 3.0x - 4.1x 1.7x - 5.3x	9.6x - 72.3x 2.1x - 5.0x 2.0x - 6.3x	The higher the multiples, the higher the fair value	+30,662,000/ -30,662,000	+29,082,000/ -29,082,000
					- Discount rate for lack of marketability and specific risk	54%	50%	The higher the discount rate, the lower the fair value	-34,159,000/ +34,159,000	-26,268,000/ +26,268,000
Unlisted convertible loan classified as financial assets designated at FVTPL (Notes 1 and 4)	39,799,822	—	Level 3	Discounted cash flow	- Discount rate	6.2%	N/A	The higher the discount rate, the lower the fair value	-921,000/ +921,000	N/A
Unlisted equity classified as financial assets designated at FVTPL (Note 1)	58,083,621	22,408,822	Level 3	Fund's net asset value	N/A	N/A	N/A	N/A	N/A	N/A
Equity securities traded on New Third Board classified as financial assets designated at FVTPL (Note 1)	7,853,295	5,087,934	Level 3	Recent transaction price	N/A	N/A	N/A	N/A	N/A	N/A
Unlisted equity classified as financial assets designated at FVTPL (Note 1)	–	5,189,563	Level 3	Recent transaction price	N/A	N/A	N/A	N/A	N/A	N/A
Unlisted convertible loan classified as financial assets designated at FVTPL (Note 1)	30,608,185	28,830,907	Level 3	Recent transaction price	N/A	N/A	N/A	N/A	N/A	N/A
Unlisted equity securities and bond classified as financial assets designated at FVTPL (Note 1)	3,903,492	4,128,139	Level 3	Recent transaction price	N/A	N/A	N/A	N/A	N/A	N/A
Closing balance	824,963,595	642,646,634								

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017

5. FINANCIAL INSTRUMENTS (CONTINUED)

Fair value measurement of financial instruments (continued)

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

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

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

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

Note 4: Pursuant to the agreement for a loan convertible into equity interest in relation to Rong Bao Zhai Culture Co., Ltd., the conversion right is subject to the fulfilment of certain precedent conditions which are not under the control of the Group.

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

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

	Level 1 *US$*	Level 2 *US$*	Level 3 *US$*	2016 Total *US$*
Financial assets designated at FVTPL	276,005,464	—	366,641,170	642,646,634
Financial liabilities designated at FVTPL	—	—	1,221,641	1,221,641

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:

	Designated at FVTPL US$
Balance at 1 January 2016	372,402,960
Gains or losses recognised in profit or loss	(18,804,868)
Exchange differences arising on translation	(21,252,952)
Purchases	35,462,015
Return of capital	(1,165,985)
Balance at 31 December 2016	366,641,170
Balance at 1 January 2017	**366,641,170**
Gains or losses recognised in profit or loss	**54,334,654**
Exchange differences arising on translation	**20,026,991**
Purchases (Note)	**63,932,072**
Disposals (Note)	**(38,864,528)**
Return of capital	**(4,584,015)**
Balance at 31 December 2017	**461,486,344**

Of the total gains for the year included in profit or loss, gain of US$55,252,554 (2016: loss of US$18,804,868) 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 "Net gain (loss) on financial assets designated at fair value through profit or loss".

Note: During the year, the Group completed the replacement of all of its unlisted equity interest in Esurfing Media Co., Ltd. with the stock of Besttone Holding Co., Ltd. ("**Besttone**"), a Shanghai-listed company with the value of approximately US$15.10 million. The replacement shares of Besttone have a lock-up period of one year and is classified as Level 3 investment as at the year 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)

Reconciliation of fair value measurements of financial liabilities:

	Designated at FVTPL US$
Balance at 1 January 2016	1,376,377
Additions	157,825
Change in fair value	(312,561)
Balance at 31 December 2016	1,221,641
Balance at 1 January 2017	**1,221,641**
Additions	**194,999**
Disposals	**(309,058)**
Change in fair value	**343,580**
Balance at 31 December 2017	**1,451,162**

Fair value measurements and valuation processes

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

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

The following is the analysis of net gain (loss) on investments of the Group for the year ended 31 December 2017. The amounts of realised gain (loss) represent the fair value difference between the beginning of the year or purchase date in the year and the disposal date of financial instruments while the amounts of unrealised gain (loss) represents the change of fair value during the year of financial instruments held by the Group as at the year end:

	2017	2016
	US$	*US$*
Net gain (loss) on financial assets designated at FVTPL		
Listed investments		
Realised	**2,906,761**	(3,461,185)
Unrealised	**117,183,692**	(19,807,576)
Unlisted investments		
Realised	**(917,900)**	—
Unrealised	**55,033,492**	(12,279,346)
Total	**174,206,045**	(35,548,107)

7. INVESTMENT INCOME

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

	2017	2016
	US$	*US$*
Interest income on bank deposits	**269,311**	360,186
Dividend income on financial assets designated at FVTPL		
Listed equity investments	**9,846,963**	12,727,717
Unlisted equity investments	**5,091,533**	12,911,655
	14,938,496	25,639,372
Total	**15,207,807**	25,999,558

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017

7. INVESTMENT INCOME (CONTINUED)

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

	2017	2016
	US$	*US$*
Interest income for financial assets not designated at FVTPL	**269,311**	360,186
Investment income earned on financial assets designated at FVTPL	**14,938,496**	25,639,372
Total	**15,207,807**	25,999,558

8. SEGMENTAL INFORMATION

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

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

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

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

(d) Energy and resources: investees engaged in energy and resources activities.

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

(f) Medical and pharmaceutical: investees engaged in medical and pharmaceutical activities.

The Group also invested in agriculture and education activities. None of these segments met the quantitative thresholds for the reportable segments in both current and prior years.

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.

8. SEGMENTAL INFORMATION (CONTINUED)

For the year ended 31 December 2017

	Reportable segments								
	Financial services US$	Culture, media and consumption US$	Manufacturing US$	Energy and resources US$	Information technology US$	Medical and pharmaceutical US$	Total reportable segments US$	Others US$	Total US$
Net gain (loss) on financial assets designated at FVTPL	115,731,800	27,966,583	7,373,121	3,077,868	20,328,808	(158,167)	174,320,013	(113,968)	174,206,045
Dividend income on financial assets designated at FVTPL	10,239,404	3,803,622	—	—	66,614	828,856	14,938,496	—	14,938,496
Other gains	—	442,792	—	—	—	—	442,792	—	442,792
Profit (loss)	125,971,204	32,212,997	7,373,121	3,077,868	20,395,422	670,689	189,701,301	(113,968)	189,587,333
Unallocated:									
– Administrative expenses									(21,022,596)
– Interest income on bank deposits									269,311
Profit before taxation									168,834,048

For the year ended 31 December 2016

	Reportable segments								
	Financial services US$	Culture, media and consumption US$	Manufacturing US$	Energy and resources US$	Information technology US$	Medical and pharmaceutical US$	Total reportable segments US$	Others US$	Total US$
Net (loss) gain on financial assets designated at FVTPL	(10,232,995)	(10,029,567)	4,889,561	(2,886,394)	(1,505,102)	(15,785,115)	(35,549,612)	1,505	(35,548,107)
Dividend income on financial assets designated at FVTPL	12,515,296	12,348,672	—	248,430	—	526,974	25,639,372	—	25,639,372
Other gains	—	293,565	—	—	—	—	293,565	—	293,565
Profit (loss)	2,282,301	2,612,670	4,889,561	(2,637,964)	(1,505,102)	(15,258,141)	(9,616,675)	1,505	(9,615,170)
Unallocated:									
– Administrative expenses									(12,484,394)
– Interest income on bank deposits									360,186
Loss before taxation									(21,739,378)

8. SEGMENTAL INFORMATION (CONTINUED)

Segment profit (loss) represents the net gain (loss) on financial assets designated at FVTPL including net gain (loss) on investments, the corresponding dividend income and other gains earned by each segment without allocation of central administrative expenses (including fees to the Investment Manager) and interest income on bank deposits. 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).

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

	2017 US$	2016 US$
Segment assets		
Financial services	558,939,886	464,359,280
Culture, media and consumption	179,312,367	114,649,740
Manufacturing	18,270,026	10,028,110
Energy and resources	7,853,295	4,399,596
Information technology	49,089,108	24,950,579
Medical and pharmaceutical	—	20,983,134
Total assets for reportable segments	813,464,682	639,370,439
Others	11,498,913	10,942,222
Unallocated	47,863,400	37,508,588
Consolidated assets	872,826,995	687,821,249
Segment liabilities		
Financial services	100,126	101,787
Culture, media and consumption	735,830	579,758
Manufacturing	237,529	131,321
Energy and resources	156,921	92,419
Information technology	115,559	557,388
Medical and pharmaceutical	—	115,048
Total liabilities for reportable segments	1,345,965	1,577,721
Others	4,008,689	3,776,568
Unallocated	161,846,227	121,151,515
Consolidated liabilities	167,200,881	126,505,804

8. SEGMENTAL INFORMATION (CONTINUED)

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

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

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

9. PROFIT (LOSS) BEFORE TAXATION

	2017	2016
	US$	*US$*
Profit (loss) before taxation has been arrived at after charging:		
Auditor's remuneration	**190,856**	141,074
Net foreign exchange loss	**13,924**	130,026
Investment Manager's management fee (note 28 (a))	**12,303,271**	10,964,452
Investment Manager's performance fee (note 28 (b))	**7,560,103**	—
Directors' fees	**137,496**	159,888

10. DIRECTORS' EMOLUMENTS

The Group has no chief executives and the Directors' fees paid or payable to each of the 12 (2016: 11) Directors were as follows:

	2017	2016
	US$	*US$*
Executive Directors:		
Mr. HONG Xiaoyuan	**—**	—
Mr. CHU Lap Lik, Victor (Note a)	**—**	—
Mr. WANG Xiaoding	**—**	—
Mr. TSE Yue Kit	**—**	—
Ms. KAN Ka Yee, Elizabeth (Alternate Director) (Note a)	**—**	—
Mr. LI Yinquan#	**—**	—
	—	—

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017

10. DIRECTORS' EMOLUMENTS (CONTINUED)

	2017 US$	2016 US$
Non-executive Directors (Note b):		
Mr. KE Shifeng	**30,698**	30,946
Mr. ZHANG Rizhong*	**—**	N/A
	30,698	30,946
Independent Non-executive Directors (Note b):		
Mr. LIU Baojie	**30,698**	30,946
Mr. TSANG Wah Kwong	**35,814**	36,104
Dr. LI Fang	**30,698**	30,946
Mr. ZHU Li#	**9,588**	30,946
	106,798	128,942
Total	**137,496**	159,888

* The Director was appointed during the year 2017.

\# The Directors resigned during the year 2017.

Notes:

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

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

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

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

11. EMPLOYEES' EMOLUMENTS

The five (2016: five) highest paid individuals in the Group were all Directors of the Company and details of their emoluments are included in note 10 above.

12. TAXATION

The tax (charge) credit for the year comprises:

	2017 **US$**	2016 *US$*
The Company and its subsidiaries		
Current tax:		
PRC Enterprise Income Tax	**(13,607,510)**	(14,643,629)
Withholding tax for distributed earnings of PRC subsidiaries	**(2,678,216)**	(1,497,499)
Underprovision in prior year	**—**	(387)
Deferred taxation (note 21)		
Current year	**(34,645,488)**	22,283,229
Total	**(50,931,214)**	6,141,714

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

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

12. TAXATION (CONTINUED)

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

	2017	2016
	US$	*US$*
Profit (loss) before taxation	**168,834,048**	(21,739,378)
Tax at the domestic income tax rate of 25% (2016: 25%) (Note)	**(42,208,512)**	5,434,845
Tax effect of expenses not deductible for tax purpose	**(4,243,453)**	(3,969,284)
Tax effect of income not taxable for tax purpose	**2,534,558**	5,516,604
Underprovision in prior year	**—**	(387)
Tax effect of tax losses/deductible temporary differences not recognised	**(99,523)**	(59,086)
Effect of different tax rates of the Company and its subsidiaries operating in other regions in the PRC	**2,566,834**	(302,567)
Withholding tax for undistributed earnings of PRC subsidiaries	**(6,366,149)**	175,874
Withholding tax for distributed earnings of PRC subsidiaries	**(2,678,216)**	(1,497,499)
Other	**(436,753)**	843,214
Taxation	**(50,931,214)**	6,141,714

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

13. DIVIDENDS

Subsequent to the end of the reporting period, a final dividend of US$0.06 per share (2016: US$0.06), in an aggregate amount of US$9,139,981 (2016: US$9,139,981), in respect of the year ended 31 December 2017 (2016: year ended 31 December 2016) 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$9,139,981 (2016: US$22,849,952) for the year ended 31 December 2016 (2016: year ended 31 December 2015) was paid on 27 July 2017 (2016: 28 July 2016).

14. BASIC EARNINGS (LOSS) PER SHARE

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

	2017	2016
Profit (loss) for the purpose of basic earnings (loss) per share (US$)	**117,902,834**	(15,597,664)
Number of ordinary shares for the purpose of basic earnings (loss) per share	**152,333,013**	152,333,013
Basic earnings (loss) per share (US$)	**0.774**	(0.102)

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

15. FINANCIAL ASSETS DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS

	2017 ***US$***	2016 *US$*
Equity and debt securities designated at FVTPL:		
– listed equities in PRC (Note a)	**348,427,399**	260,054,717
– listed equity in HK (Note a)	**15,049,852**	15,950,747
– listed equities within lock-up period in PRC (Note a)	**24,402,375**	10,063,428
– listed equities on New Third Board (Note a)	**8,829,696**	5,998,270
– unlisted equities (Note b)	**325,306,266**	294,597,260
– unlisted preferred equity (Note b)	**32,540,000**	26,700,000
– unlisted bond (Note b)	**—**	451,305
– unlisted conventible loans (Note b)	**70,408,007**	28,830,907
Total	**824,963,595**	642,646,634
Analysed to reporting purposes as		
Current assets	**376,210,439**	295,938,706
Non-current assets	**448,753,156**	346,707,928
Total	**824,963,595**	642,646,634

The Group's sale proceeds from disposal of investments in 2017 was US$72,919,073 (2016: US$56,929,045).

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

Notes:

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

(b) As at 31 December 2017, fair values of unlisted equities and convertible loans amounting to US$82,164,794 (2016: US$41,794,998) were arrived at by reference to their recent transaction prices or discounted cash flows. For unlisted investments with no recent transactions noted, their fair values were arrived at on the basis of valuations carried out by an independent valuer not connected with the Group. 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.

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

The following are the details of all investments with a value of more than 5% of the Group's gross assets as at 31 December 2017 and 31 December 2016 and also details of ten largest investments of the Group.

For the year ended 31 December 2017

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

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

For the year ended 31 December 2016

Name of investees	Description of the business	Proportion of investee's capital owned	Investment cost *US$ million*	Carrying value *US$ million*	Dividend/ distribution received during the year *US$ million*	% of the Group's net assets as at year end attributable to the investments
China Credit Trust Co., Ltd.	Trust management	6.94%	50.49	170	Nil	30.32%
China Merchants Bank Co., Ltd.	Banking	0.22%	19.79	140	5.69	24.96%
Industrial Bank Co., Ltd.	Banking	0.23%	7.58	102	6.23	18.21%
JIC Leasing Co., Ltd.	Finance leasing	6.46%	38.78	34	Nil	6.11%
Rong Bao Zhai Culture Co., Ltd.	Artwork marketing	N/A	28.86	29	Nil	5.14%
NBA China, L.P.	Sports marketing	1% preferred equity	4.58	27	Nil	4.76%
Nanjing Sanhome Pharmaceutical Co., Ltd.	Pharmaceutical	3.50%	17.17	21	0.54	3.74%
China Media Creative Industry Private Equity (Shanghai) Centre (Limited Partnership)	Media investment	10.13%	24.76	21	13.50	3.74%
Iflytek Co., Ltd.	Intelligent speech technology	0.35%	18.83	18	Nil	3.16%
China Reinsurance (Group) Corporation	Reinsurance	0.16%	19.31	16	0.42	2.84%

16. OTHER RECEIVABLES

	2017 **US$**	2016 US$
Dividend receivable	**—**	7,666,025
Interest receivable	**59,561**	15,627
Other receivables	**36,574**	1,362
Total	**96,135**	7,683,014

17. BANK BALANCES AND CASH

Bank balances comprise current accounts, savings accounts and short-term bank deposits at fixed prevailing market interest rates. The bank balances and cash of the Group include an amount of US$36.88 million (2016: US$15.49 million) which is denominated in RMB.

Bank balances and cash held by subsidiaries in the PRC are subject to exchange control restrictions. The carrying amount of these restricted assets in the consolidated financial statements as at 31 December 2017 was approximately of US$36.09 million (2016: US$15.25 million).

18. OTHER PAYABLES

Other payables mainly comprise management fee and performance fee payable to the Investment Manager as disclosed in note 28 and business tax payable of US$19,607,487 (2016: US$19,607,487) arising from disposal of listed equity securities.

19. TAXATION PAYABLE

The taxation payable represents applicable PRC taxes calculated at the rates prevailing in the relevant regions mainly for the realised capital gains from disposal of investments.

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

The financial liabilities designated at FVTPL as at 31 December 2017 were related to the sub-participation agreements (the "**Sub-participation Agreements**") entered into between the Company and the participants in respect of the investments by the Group in 北京銀廣通廣告有限公司 (Unibank Media Group Inc.), 武漢日新科技股份有限公司 (Wuhan Rixin Technology Co., Ltd.), 華人文化 (天津) 投資管理有限公司 (China Media (Tianjin) Investment Management Co., Ltd.), 深圳吉陽智能科技有限公司 (Shenzhen Geesun Intelligent Technology Co., Ltd.), 華人文化產業股權投資 (上海) 中心 (有限合夥) (China Media Creative Industry Private Equity (Shanghai) Centre (Limited Partnership)), 江蘇華爾石英材料股份有限公司 (Jiangsu Huaer Quartz Materials Co., Ltd.), 西安金源電氣股份有限公司 (Xi'an Jinpower Electrical Co., Ltd.), 遼寧振隆特產股份有限公司 (Liaoning Zhenlong Native Produce Holding Company Ltd.), 能通科技股份有限公司 (NTong Technology Co., Ltd.), 華勁集團股份有限公司 (Hwagain Group Co., Ltd.), 新疆承天農牧業發展股份有限公司 (Xinjiang Chengtian Agriculture & Animal Husbandry Development Co., Ltd.), 號百控股股份有限公司 (Besttone Holding Co., Ltd.), 廣西新華幼兒教育投資有限公司 (Guangxi Xinhua Preschool Education Investment Corporation Limited), 東方明珠新媒體股份有限公司 (Oriental Pearl Media Co., Ltd.), 中建投租賃股份有限公司 (JIC Leasing Co., Ltd.), 中國再保險 (集團) 股份有限公司 (China Reinsurance (Group) Corporation), 雲南金瀾湄國際旅遊投資開發有限公司 (Yunnan Jinlanmei International Travel Investment Development Co., Ltd.), 科大訊飛股份有限公司 (Iflytek Co., Ltd.), 安徽科訊創業投資基金合夥企業 (有限合夥) (Anhui Iflytek Venture Capital LLP), 榮寶齋文化有限公司 (Rong Bao Zhai Culture Co., Ltd.) and青海省青海湖旅遊集團有限公司 (Qinghai Provincial Qinghai Lake Tourism Group Co., Ltd.) (collectively referred to as the "**Project Companies**"). All above mentioned investments by the Group in the Project Companies are designated as financial assets designated at FVTPL categorised in Level 1 or Level 3. The classification and fair value of the Sub-participation Agreements are associated directly with these underlying investments and their valuation details and sensitivity analysis are set out in note 5. As at 31 December 2017 and 2016, the financial liabilities designated at FVTPL are classified as non-current liabilities and presented in the consolidated statement of financial position.

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

21. DEFERRED TAXATION

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

	Unrealised capital gains for investments US$	Undistributed earnings of PRC subsidiaries US$	Total US$
Balance at 1 January 2016	91,816,302	18,250,398	110,066,700
Credited to profit or loss for the year	(22,107,355)	(175,874)	(22,283,229)
Exchange differences	(4,660,208)	(1,166,531)	(5,826,739)
Balance at 31 December 2016	**65,048,739**	**16,907,993**	**81,956,732**
Charged to profit or loss for the year	**28,279,339**	**6,366,149**	**34,645,488**
Exchange differences	**4,646,967**	**1,042,291**	**5,689,258**
Balance at 31 December 2017	**97,975,045**	**24,316,433**	**122,291,478**

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

22. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	Notes	**2017** **US$**	2016 US$
Non-current assets			
Investments in subsidiaries		**44,583,914**	41,784,412
Financial assets designated at fair value through profit or loss		**97,616,196**	81,668,826
Amounts due from subsidiaries		**56,583,765**	56,849,615
		198,783,875	180,302,853
Current assets			
Amounts due from subsidiaries		**115,180,078**	59,822,581
Other receivables		**45,447**	16,329
Bank balances and cash		**10,701,950**	21,856,869
		125,927,475	81,695,779
Current liabilities			
Amounts due to subsidiaries		**21,548,739**	14,412,589
Other payables		**14,584,714**	3,416,245
Taxation payable		**4,593,795**	1,915,579
		40,727,248	19,744,413
Net current assets		**85,200,227**	61,951,366
Total assets less current liabilities		**283,984,102**	242,254,219
Non-current liabilities			
Financial liabilities designated at fair value through profit or loss		**1,451,162**	1,221,641
Deferred taxation		**8,231,746**	6,637,009
		9,682,908	7,858,650
Net assets		**274,301,194**	234,395,569
Capital and reserves			
Share capital	23	**139,348,785**	139,348,785
Reserves	24	**134,952,409**	95,046,784
Equity attributable to owners of the Company		**274,301,194**	234,395,569

Mr. ZHANG Rizhong
Director

Mr. WANG Xiaoding
Director

23. SHARE CAPITAL OF THE COMPANY

	Number of shares	US$
Issued and fully paid:		
At 1 January and 31 December 2016, 1 January and 31 December 2017 – Ordinary shares with no par value	**152,333,013**	**139,348,785**

24. RESERVES OF THE COMPANY

	Retained profits US$
Balance at 1 January 2016	106,951,410
Profit for the year	10,945,326
2015 final and special dividends paid	(22,849,952)
Balance at 1 January 2017	**95,046,784**
Profit for the year	**49,045,606**
2016 final dividend paid	**(9,139,981)**
Balance at 31 December 2017	**134,952,409**

25. NET ASSET VALUE PER SHARE

The calculation of the net asset value per share at the end of the reporting period is based on the net assets of US$705,626,114 (2016: US$561,315,445) and 152,333,013 ordinary shares (2016: 152,333,013 ordinary shares) with no par value in issue at 31 December 2017.

26. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

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

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

27. COMMITMENTS

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

(a) On 29 April 2010, the Group entered into an agreement with, among others, China Media Creative Industry Private Equity (Shanghai) Centre (Limited Partnership) ("**China Media Investment**"), pursuant to which the Group agreed to make a cash injection of RMB200 million (equivalent to approximately US$31.09 million) in total by installment into the capital of China Media Investment in return for approximately 10% interest in China Media Investment. In addition, the other investors agreed to make cash injections proportionate to their holdings. As at 31 December 2017, the Group has injected RMB158.66 million, equivalent to approximately US$24.76 million (2016: RMB158.66 million, equivalent to approximately US$24.76 million) into China Media Investment and classified the investment as a financial asset designated at FVTPL under non-current assets.

(b) On 31 October 2014, the Group entered into a joint venture agreement in relation to Guangxi Xinhua Preschool Education Investment Corporation Limited ("**Xinhua Preschool Education**"), pursuant to which the Group agreed to make a capital contribution of RMB90 million (equivalent to approximately US$14.08 million) in total by installment into the capital of Xinhua Preschool Education in return for a 30% interest in Xinhua Preschool Education. As at 31 December 2017, the Group has injected RMB30 million, equivalent to approximately US$4.90 million (2016: RMB30 million, equivalent to approximately US$4.90 million) into Xinhua Preschool Education and classified the investment as a financial asset designated at FVTPL under non-current assets.

(c) On 25 April 2016, the Group entered into a joint venture agreement in relation to Yunnan Jinlanmei International Travel Investment Development Co., Ltd. ("**Jinlanmei Travel**"), pursuant to which the Group agreed to make a capital contribution of RMB20 million (equivalent to approximately US$3.02 million) in total by installment into the capital of Jinlanmei Travel in return for a 20% interest in Jinlanmei Travel. As at 31 December 2017, the Group has injected RMB10 million, equivalent to approximately US$1.49 million (2016: RMB10 million, equivalent to approximately US$1.49 million) into Jinlanmei Travel and classified the investment as a financial asset designated at FVTPL under non-current assets.

(d) On 6 December 2016, the Group entered into a partnership agreement in relation to Anhui Iflytek Venture Capital LLP ("**Iflytek Venture Capital**"), pursuant to which the Group agreed to make a capital contribution of RMB90 million (equivalent to approximately US$13.40 million) in total by installment into the capital of Iflytek Venture Capital in return for a 14.95% interest in Iflytek Venture Capital. As at 31 December 2017, the Group has injected RMB49.50 million, equivalent to approximately US$7.20 million (2016: RMB36 million, equivalent to approximately US$5.19 million) into Iflytek Venture Capital and classified the investment as a financial asset designated at FVTPL under non-current assets.

(e) On 27 October 2017, the Group entered into a partnership agreement in relation to Ningbo Meishan Free Trade Port Area Jiangmen Venture Capital LLP (the "**Jiangmen Ventures Fund**"), pursuant to which the Group agreed to make a capital contribution of RMB30 million (equivalent to approximately US$4.59 million) in total into the capital of the Jiangmen Ventures Fund in return for a 7.32% interest in the Jiangmen Ventures Fund. No capital contribution was made by the Group during the year.

28. RELATED PARTY TRANSACTIONS

The Company has appointed the Investment Manager for both listed and unlisted investments. Certain Directors of the Company are also Directors and/or shareholders of the Investment Manager.

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

(a) The Company paid or accrued to the Investment Manager management fees totaling US$12,303,271 (2016: US$10,964,452). The fee is calculated based on a fixed percentage on the value of the Group's adjusted assets on a quarterly basis as stipulated in the Investment Management Agreement (Note).

(b) A performance fee of US$7,560,103 (2016: Nil) is provided for the year 2017 and is payable to the Investment Manager. The fee is calculated based on a fixed percentage on the agreed increment of the Group's net asset value after certain adjustments as stipulated in the Investment Management Agreement (Note).

The amount due to the Investment Manager included in other payables in the consolidated statement of financial position as at 31 December 2017 was US$14,131,105 (2016: US$2,720,437). Amount due to the Investment Manager is unsecured, interest free and is repayable on demand.

(c) Securities brokerage commission fee totaling US$14,891 (2016: US$35,484) was paid to an associate of a substantial shareholder of the Company who has significant influence over the Company.

(d) Pursuant to the Sub-participation Agreements, the financial liabilities of the Group with Mr. WANG Xiaoding and Mr. TSE Yue Kit, who are Directors of both the Company and the Investment Manager, were US$248,700 and US$24,398, respectively (2016: US$177,162 and US$20,835, respectively). The financial liability of the Group with Mr. HONG Xiaoyuan, a Director of the Company, was US$89,962 (2016: US$92,907). The financial liability of the Group with Mr. ZHANG Rizhong, who was appointed as a Director of both the Company and the Investment Manager on 25 April 2017 and 1 April 2017, respectively, was US$2,574 (2016: Nil). The financial liability of the Group with Mr. LI Yinquan, who resigned as a Director of both the Company and the Investment Manager on 25 April 2017 and 1 April 2017, respectively, was US$17,857 (2016: US$14,589). Moreover, the financial liability of the Group with Mr. LAW Hung Kuen, Janson, a Director of the Investment Manager, was US$8,180 (2016: US$5,051).

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

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

29. PARTICULARS OF SUBSIDIARIES

Particulars of all subsidiaries at 31 December 2017 and 2016, which are all wholly-owned by the Company, are as follows:

Name	Classes of shares held	Place of incorporation/ registration and operation	Principal activities	Issued and paid-up capital	Name of Directors
CMCDI Zhaoyuan Limited	Ordinary	BVI/PRC	Inactive	US$1(Directly owned limited liability company)	Mr. WANG Xiaoding Mr. NG Chi Keung
China Merchants Industry Development (Shenzhen) Limited	Registered capital	PRC/PRC	Investment holding	US$10,000,000 (Directly owned & wholly-owned foreign enterprise)	Mr. CHU Lap Lik, Victor Mr. WANG Xiaoding Mr. TSE Yue Kit Ms. KAN Ka Yee, Elizabeth Mr. CHOI King Yin, Christopher
Everich Dynamic Investments Limited	Ordinary	BVI/PRC	Inactive	US$1 (Directly owned limited liability company)	Mr. WANG Xiaoding Ms. HO Man Yi
Goshing Investment Limited	Ordinary	BVI/PRC	Investment holding	US$1 (Directly owned limited liability company)	Mr. WANG Xiaoding Mr. NG Chi Keung
Leadman Investment Limited	Ordinary	HK/HK	Inactive	HK$1(Directly owned limited liability company)	Mr. WANG Xiaoding Mr. NG Chi Keung
Main Star Investment Limited	Ordinary	HK/HK	Investment holding	HK$40,000,000 (Directly owned limited liability company)	Mr. WANG Xiaoding Mr. NG Chi Keung
Ryan Pacific Limited	Ordinary	BVI/PRC	Inactive	US$1 (Directly owned limited liability company)	Mr. WANG Xiaoding Mr. NG Chi Keung
Star Group Limited	Ordinary	HK/HK	Investment holding	HK$2 (Directly owned limited liability company)	Mr. WANG Xiaoding Mr. NG Chi Keung
Shenzhen Tian Zheng Investment Co., Ltd.	Registered capital	PRC/PRC	Investment holding	RMB700,000,000 (Indirectly owned limited liability company)	Mr. SHEN Qi
Wisetech Limited	Ordinary	BVI/PRC	Investment holding	US$1 (Directly owned limited liability company)	Mr. WANG Xiaoding Ms. HO Man Yi
Xinjiang Tian Hong Equity Investment Co., Ltd.	Registered capital	PRC/PRC	Investment holding	RMB30,000,000 (Indirectly owned limited liability company)	Mr. SHEN Qi

None of the subsidiaries had any debt securities subsisting at 31 December 2017 and 2016 or at any time during the year.

30. CAPITAL RISK MANAGEMENT

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

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

31. EVENT AFTER THE REPORTING PERIOD

In January and February 2018, the Group disposed of 23.94 million A shares of Industrial Bank Co., Ltd. for net proceeds and gain of RMB440.10 million (equivalent to approximately US$69.45 million) and RMB34.01 million (equivalent to approximately US$5.03 million), respectively.

FINANCIAL SUMMARY

CONSOLIDATED RESULTS

	For the year ended 31 December				
	2013	2014	2015	2016	**2017**
	US$	*US$*	*US$*	*US$*	***US$***
Net gain (loss) on financial assets designated at fair value through profit or loss	34,932,077	194,828,928	31,492,599	(35,548,107)	**174,206,045**
Investment income	23,558,016	17,053,071	40,939,324	25,999,558	**15,207,807**
Profit (loss) from operations	48,980,446	189,388,331	58,251,266	(21,739,378)	**168,834,048**
Share of results of associates	(4,702,094)	(1,461,117)	—	—	**—**
Gain on disposal of a subsidiary	—	9,723,213	—	—	**—**
Gain on disposal of an associate	—	1,432,126	—	—	**—**
Taxation	(9,440,386)	(50,454,183)	(12,012,654)	6,141,714	**(50,931,214)**
Profit (loss) attributable to owners of the Company	34,837,966	148,628,370	46,238,612	(15,597,664)	**117,902,834**
Basic earnings (loss) per share	0.224	0.976	0.304	(0.102)	**0.774**
Dividend per share					
– Final	0.06	0.06	0.06	0.06	**0.06**
– Special	—	0.03	0.09	—	**—**
– Total	0.06	0.09	0.15	0.06	**0.06**

CONSOLIDATED ASSETS AND LIABILITIES

	As at 31 December				
	2013	2014	2015	2016	**2017**
	US$	*US$*	*US$*	*US$*	***US$***
Total assets	600,655,481	799,550,700	780,266,541	687,821,249	**872,826,995**
Total liabilities	(99,120,715)	(159,422,517)	(144,939,043)	(126,505,804)	**(167,200,881)**
Net assets	501,534,766	640,128,183	635,327,498	561,315,445	**705,626,114**
Net asset value per share	3.292	4.202	4.171	3.685	**4.632**