SHANGHAI INTERNATIONAL SHANGHAI GROWTH INVESTMENT LIMITED

(INCORPORATED IN THE CAYMAN ISLANDS WITH LIMITED LIABILITY)

2004 Annual Report

INVESTMENT MANAGER

SHANGHAI INTERNATIONAL ASSET MANAGEMENT (H.K.) CO., LTD.

CONTENTS

CORPORATE INFORMATION

Directors

Executive Directors:
Mr. Wu, Choi Sun William
Dr. Xue, Wanxiang

Independent Non-Executive Directors:
Mr. Ong, Ka Thai
Mr. Yick, Wing Fat Simon
Dr. Hua, Min

Other Non-Executive Directors:
Mr. Cai, Nongrui
Mr. Chao, Hsi-hsiang
Mr. Chen, Chi-chuan
Mr. Chiang, Ching-yee
Mr. Chiu, Tak-chiang
(also known as Yau, Tak-chiang)
Mr. Hu, Jinggang
Mr. Tseng, Ta-mon
Dr. Wang, Changhong
Mme. Yin, Wong Yee-fan
Mr. Zhou, Youdao

Company Secretary

Mr. Liang, Kwan Wah Andrew

Investment Manager

Shanghai International Asset
Management (H.K.) Co., Ltd.
23/F Two International Finance Centre,
8 Finance Street,
Central, Hong Kong

Room 1203-4 Aetna Tower,
107 Zun Yi Road,
Shanghai 200051, China

Legal Advisers

In Hong Kong:
Charltons Solicitors & Notary Public

In the Cayman Islands:
Maples and Calder

Auditors

Deloitte Touche Tohmatsu
Certified Public Accountants

Custodian

State Street Bank and Trust Company

Share Registrars and Transfer office

Secretaries Limited
G/F, BEA Harbour View Centre,
56 Gloucester Road, Wanchai,
Hong Kong

Registered Office

Ugland House, P.O. Box 309
George Town, Grand Cayman,
Cayman Islands

BOARD OF DIRECTORS' STATEMENT

The Board of Directors (the "Board") of Shanghai International Shanghai Growth Investment Limited (the "Company") is pleased to present the twelfth annual report for the year ended December 31, 2004.

REVIEW OF RESULTS

The Company recorded an after-tax profit of US$2,083,392 for the year ended December 31, 2004, compared with a net profit of US$3,170,731 in 2003, representing a decrease of 34% year-on-year. The discrepancy stems from written back of the US$1,200,000 tax provision in 2003. Excluding the net provision write back, the Company's net profit for 2004 represents a 5.7% increase. There was, however, a drop in dividend income from unlisted investments in 2004. The reasons being much efforts have been spent to find exit alternatives for some long invested projects, and the Company has been successful to exit and recover investment costs with gains in most cases. On the other hand, the Company continues to exercise prudence in analyzing new investments opportunities to avoid and minimize risk. As a result of divestments, the Company has, however, recorded significant gains on sale of listed securities compared with losses in the previous year. The disposed listed securities have been re-classified from unlisted investments upon its listing in March 2004.

The Company continued to manage its listed investments portfolio with primary objective of re-balancing the portfolio based on macro shift and market trends. Contrary to the Company's benchmarking against relative performance and peer ranking for its listed investment in prior years, it has redirected the emphasis on absolute return in recent years. The shift in investment orientation resulted in a more dynamic portfolio with more active turnover. During the year, the Company's dividend income from unlisted and listed investments amounted to US$1,163,820, with a net realized gain on disposal of investments at US$2,729,905. As at the end of December 2004, the Company's listed securities portfolio recorded a gain of 29% as compared with 2003.

During the year under review, the Company paid a combined year-end and special dividend of US$0.80 per share for 2003. The Company's net asset value ("NAV") per share as at December 31, 2004 was US$6.44, a 6.27% increase compared with the NAV per share of US$6.06 in 2003. As at the end of December 2004, the Company's share price was US$4.60 (2003: US$3.60), reflecting a 28.57% discount to NAV per share and a 50% improvement before the payment of 2003 dividends.

CORPORATE GOVERNANCE

Board of Directors

The Board is not aware of any information that would reasonably indicate that the Company was not in compliance with the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities ("Listing Rules") on The Stock Exchange of Hong Kong Limited ("Stock Exchange") during the year.

BOARD OF DIRECTORS' STATEMENT *(Cont'd)*

Model Code

During the year ended December 31, 2004, the Company has adopted the Model Code as set out in Appendix 10 of the Listing Rules as its code of conduct regarding directors' transactions in securities. The Company has made specific enquiry of all directors regarding any non-compliance with the Model Code during the year ended December 31, 2004, and they have all confirmed their respective full compliance with the required standard set out in the Model Code.

Appointment of independent non-executive Director

In compliance with requirements in the revised Listing Rules, the Company appointed Dr. Hua Min as the third independent non-executive director of the Company, effective September 28, 2004.

Dr. Hua graduated with a Bachelor's degree in Economics and also holds a Doctorate in World Economics from Fudan University. He is currently the Chairman of Institute of World Economy, Fudan University, Chief of World Economy Department and Deputy-Chief of Academic Committee of Fudan University.

Amendments to the Company's Articles of Association

In January 2004, the Stock Exchange announced amendments to certain sections of the Listing Rules with which the articles of association of a listed issuer are required to conform.

A detailed explanation and the reasons for necessary changes to the Company's Articles of Association are contained in the circular to the Company's shareholders. Relevant resolutions are to be proposed for shareholders approval in the Company's forthcoming annual general meeting.

Audit Committee

The Company's Audit Committee has been established since 1999 and currently comprises Mr. Yick Wing Fat, Simon (Chairman), Mr. Ong Ka Thai, Dr. Hua Min and Mr. Chen Chi Chuan, all of whom are non-executive directors of the Company, with three of them being independent. The terms of reference based on "A Guide for Effective Audit Committees" was adopted by the Board to confer the authority and duties of the Audit Committee. It meets at least twice annually with the external auditor to discuss the interim results and annual audit.

The Audit Committee has reviewed the accounting principles and policies adopted by the Company and discussed with management the internal control, auditing and financial reporting matters in respect of the annual report of the Company for the year ended December 31, 2004.

CHANGE IN CUSTODIAN ARRANGEMENT AND OTHER CUSTODIAL MEASURES

At the Stock Exchange's request, the Company will issue an announcement to clarify changes made in custody arrangements of the Company's unlisted investments portfolio (the "Unlisted Portfolio") that had been implemented since October 1, 2002, as well as other custodial measures ("Other Custodial Measures") that had been incorporated in the past.

BOARD OF DIRECTORS' STATEMENT *(Cont'd)*

Change in Custodian Arrangement

The Company had re-designated certain underlying assets of its Unlisted Portfolio from custody under States Street Bank and Trust Company (the "Custodian") to its own custody from October 1, 2002. Such change was necessitated as it is germane to the Company's interest to maintain direct and effective communication channels with the invested companies inside China, which functions include performing annual and semi-annual market valuation in compliance with relevant accounting standards and reporting of dividend income. The Custodian is unable to establish that link directly under its prevailing facilities and that communication channel is therefore established through the Company's Investment Manager. Notwithstanding those functions performed, dividends distributed by these companies in USD are still remitted directly to the Company's account maintained with the Custodian.

The underlying assets of the Unlisted Portfolio so re-designated as at December 31, 2004 amounted to US$26,841,095 *(2003: US$33,062,338)*, representing 46.78% *(2003: 61.30%)* of the Company's then NAV.

Other Custodial Measures

i) *Listed Taiwanese Investments*

The Company only commenced trading in Taiwanese stocks in August 2000. The Taiwan Stock Exchange Corporation mandates investments in its listed securities to be made and held by its approved qualified foreign institutional investors ("QFII"), through which vehicles the Company invested in several blue chip Taiwan securities. Despite the Custodian could provide nominee stockholder and sub-custodian services, transaction rates and custodial fees quoted by those stockholders were, however, not competitive. Thus the Company opened accounts directly with other QFII stockbrokers offering more competitive rates for such transactions.

Listed Taiwanese Investments as at December 31, 2004 amounted to US$1,877,126 *(2003: US$1,874,607)*, representing 3.27% *(2003: 3.48%)* of the Company's then NAV.

ii) *RMB Deposits*

In efforts to ensure receipt of dividends from unlisted investments and sale proceeds from disposal of such, or risk not getting them in time or at all if payments to the Company were to be made after all requisite approval were obtained, the Company opted to receive certain dividends or divestment proceeds in their Renminbi equivalence ("RMB") from unlisted investments. Since August 2001, RMB received was temporarily deposited in a RMB denominated trust account established with Shanghai International Trust & Investment Corporation as the Custodian does not have the required facility or arrangement inside China to perform such function. The trust account is under the name of and operated by the same authorized signatories of the Company. Those RMB deposits are interest bearing while pending approval for outward remittance in US dollars from the State Administration of Foreign Exchange Bureau.

RMB Deposits as at December 31, 2004 amounted to US$2,523,227 *(2003: US$2,167,146)*, representing 4.40% *(2003: 4.02%)* of the Company's then NAV.

BOARD OF DIRECTORS' STATEMENT *(Cont'd)*

iii) *PRC Properties*

The Company purchased two PRC properties in 1994. One was disposed in 2003, and the other one is in the market looking for appropriate purchaser. The Directors have maintained that while the remaining property is held for investment holding purpose, considering the property has been acquired for over a decade and does not generate any rental income, the Company will sell the property when there is a right offer.

Valuation of the property as at December 31, 2004 amounted to US$567,000 *(2003: US$567,000)*, representing 1.00% of the Company's then NAV.

iv) *Unclaimed Dividend Balances*

These are held with the Standard Chartered Bank and are made up of small amounts of unclaimed dividends distributed by the Custodian.

These bank balances amounted to US$40,973 as at December 31, 2004 *(2003: US$42,375)*, representing 0.07% *(2003: 0.08%)* of the Company's then NAV.

DIVIDENDS

Subject to shareholders approval at the annual general meeting of the Company to be held on May 18, 2005, the Board recommends a final dividend of US$0.30 per share and a special final dividend of US$1.20 per share payable concurrently in cash for 2004, representing a 30.77% return on the market share price at the time of announcing such dividend. If approved, distributions of both dividends will be paid on or before June 10, 2005 to shareholders whose names appear on the Company's Register of Members on May 11, 2005.

CLOSING OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from May 12, 2005 to May 18, 2005, both days inclusive, during which period no transfer of shares can be registered. In order to qualify for the above dividend, all transfers accompanied by the relevant share certificates must be lodged with the Registrars of the Company, Secretaries Limited, for registration not later than 4:00 p.m. on May 11, 2005.

OUTLOOK FOR 2005

Despite the austerity measures adopted by the central government to curtail over heated and duplicate investments, with an objective for its economic growth to achieve a soft landing, China's GDP for 2004 surprised the market again with a 9.5% growth. Notwithstanding repeated comments from some western nations urging re-valuation of its currency, China has maintained that it will do so at its own pace and what it considers is best for its economy. The recent People's Congress held in March again echoed China's priority to steer its economic growth in a steady and sustainable direction, with emphasis on aids to change the three related factors to its agro economy: farmers, farm products, and farming policies. A conservative stance in its money supply through slower fixed assets investments, tightening credit control and further enforcement of the austerity measure seems to reflect the objective of China for 2005.

BOARD OF DIRECTORS' STATEMENT *(Cont'd)*

Clouded by a series of corporate scandals in 2004, regulatory reforms to introduce more stringent requirements for corporate governance will continue. Listed companies and market practitioners are required to abide by higher level of codes of practice.

With China on the rise of becoming a world economic power, rhetoric notwithstanding, increasing number of foreign companies are beginning to or already have a presence in China either via investments or for outsourcing. On the other hand, there are also increasing number of Chinese companies taking an interest to invest abroad or to enter into mergers and acquisitions with foreign companies to expedite their market entries in the indigenous countries. Investment opportunities are abound for the Company, but due diligence becomes all the more crucial.

On the local front, Hong Kong's outlook of 2005 remains positive. One consensus is the rebound of the property sector in Hong Kong, which in the past comprise a significant weighting in the Hang Seng Index and market capitalization of all listed companies. With release of the latest government statistics indicating that the number of residential units available for sale these coming two years will be significantly less than the average in the five years and the take-up rate, the local market will likely to be positive on property related companies.

Inbound tourism will continue to benefit from China's Individual Tourist Scheme which in January 2005 has included Tianjin and Chongqing in its approved list. Potential visitors from the aggregate 150~200 million residents in the approved provinces and cities will bode well for Hong Kong's retail and hospitality service industries. Opening of the first phase of Hong Kong's Disneyland in September this year is estimated to attract about 5 to 6 million visitors in its first year of operation.

Hong Kong has surpassed Italy to become the 7th largest stock market in the world. It ranked second to the US in 2004 to have raised the most money in the capital market. It is set to become bigger when major Chinese corporations have their initial public offerings in Hong Kong's Stock Exchange in 2005. In addition, we also anticipate increasing number of companies from Taiwan with investments in the mainland to seek listings in the local market. Hong Kong's position as one of the most vibrant financial centers in the world will be strengthened.

The Company will continue to look for sound investments in the coming year and has already conducted preliminary discussion and/or site visits to a handful since the beginning of this year. Situated at the foothold of a robust Chinese economy, coupled with Hong Kong's and regional recovery, the Company will continue to identify investment opportunities to further enhance shareholders value.

On behalf of the Board,
Wu, Choi Sun William
Executive Director

Hong Kong, March 23, 2005

OPERATIONS REVIEW

MARKET REVIEW

China Economy

Set forth below are the major economic indicators of China:

Growth (year-on-year %)	**2003**	**1H 2004**	**2004**
Gross domestic product ("GDP")	9.1	9.1	9.5
Value added industrial output	17.0	17.7	16.7
Retail sales	9.1	12.8	13.3
Consumer price index ("CPI")	1.2	3.6	3.9
Fixed asset investments ("FAI")	26.7	28.6	25.8
Actual foreign direct investments	1.4	12.0	13.3
Exports	34.6	35.7	35.4
Imports	39.9	42.6	36.0
Trade surplus/(deficit) *(US$ billion)*	25.5	(68)	32.0
Foreign exchange reserve *(US$ billion)*	403.3	470.6	609.9

Source: Published information

Driven by surging investment and industrial production, China's economy continued to heat up in early 2004. Output growth in heavy industries has outpaced light industrial growth attributable to strong investment demand and rapid growth of exports. China is said to be in the second stage of industrialization characterized by accelerating growth in heavy and chemical industries. High industrial growth and strong demand for building and basic materials have led to a number of bottlenecks in the supply of raw materials and electricity which could hamper a healthy long term economic development if not tackled. China's GDP growth rose to 9.7% in the first quarter 2004 but decelerated to 9.1% and 9.6% in the third and fourth quarter respectively as a result of the austerity measures implemented in the second quarter to prevent overheating of the economy.

China's robust FAI rose to 43% in the first quarter, with the lion share of investments concentrated in the secondary industries, which consists of manufacturing, mining and construction, surging 66.6% year-on-year in the quarter but the primary industries remained almost static . Credit tightening policies by the Chinese government slowed FAI growth in the second quarter to 22.3% and further reduced it to about 20% in the fourth quarter. Credit crunch notwithstanding, which effectively put a halt to many new projects, such administrative measures were perceived to be transitory, as evidenced after credit and loans were somewhat relaxed in the third quarter when FAI only slightly retreated from 26.7% in 2003 to 25.8% in 2004.

OPERATIONS REVIEW *(Cont'd)*

MARKET REVIEW *(Cont'd)*

China Economy *(Cont'd)*

China is faced with two sources of inflationary pressure in 2004: explicit and implicit. Implicit inflation was due to governmental controls on items such as prices of transportation, water, energy and coal. This kind of inflation is reflected in a shortage of supply in the areas mentioned. If China were to abandon its price controls, explicit inflation would be higher than what was statistically published.

China's CPI rose from 4.4% in April to 5.3% in May and 5% in June. From a low of 2.8% in November, it recorded a slight recovery to 3.1% at the end of 2004. This is attributable to the lingering effect of food prices as foods account for more than 30% of the CPI basket. Food price hikes contributed largely to the yearly CPI increase of 3.9% in 2004 as compared to 1.2% in 2003. Though non-food inflation is still mild and yet to cause any alarm, it has nonetheless gone up by a large margin. Commodity price hikes and energy (oil and coal in particular) price increases have put increasingly great pressure on downstream producers, who in turn have to squeeze their profit margins due to overcapacity and high inventory.

China's exports have experienced rapid growth since 2002, rising 22.1% in 2002, 34.6% in 2003 and in 2004 overall import and exports reached US$1,154.7 billion, whereby exports were up 35.4% to US$593.3 billion and imports rose 36% to US$561.4 billion, ended the year with approximately US$32 billion trade surplus, up from US$25.5 billion in 2003. The phenomenon of imports growing faster than exports has reversed since August. The latest figures marked the third-lowest month in the past 12 months for import growth. That possibly came as a result of impact from the macro adjustment policy and a slowdown in FAI on the one hand, and China's conscious effort to ease international pressure and avoid over-dependence on the international market on the other.

Hong Kong Economy

In 2004, Hong Kong's economy was the most robust since the height of the Internet frenzy back in 2000. GDP grew 7.4% in the third quarter, down from 12.1% in the second quarter due to the lower base effect after the SARS outbreak in the corresponding quarter in 2003. The seasonally adjusted GDP growth was 1.9% quarter-on-quarter in the third quarter, against the historic average of 1.1%.

After almost six years of consumer spending contraction, asset and property devaluation, plunge of property prices from its peak since mid 1997, deflation is finally ending in Hong Kong. Strong external demand, steady private consumption and investment growth boosted GDP growth, giving Hong Kong's economic outlook the buoyant boost since its nadir in the past six years.

OPERATIONS REVIEW *(Cont'd)*

MARKET REVIEW *(Cont'd)*

Hong Kong Economy *(Cont'd)*

Total exports for December rose 12.9% year-on-year, the slowest increase since January 2004. Growth in imports also decelerated from 11.2% in November to 10.5% in December. For the year 2004, the value of exports and imports was 15.9% and 16.9% higher than the previous year respectively. Exports through air continued to be the driving force behind the robust trade numbers with growth estimated to be more than 25% in 2004, significantly outpacing the growth in water bound exports. Hong Kong's seaports have lost some of their appeal given the relatively high costs and the continuous improvement of Chinese ports' efficiency along its coastal cities.

In 2004, visitor arrivals exceeded 21.81 million out of which about 4.26 million were from China. Tourism revival was fuelled by the influx of tourists from China (up 54% year-on-year) attributing to the Individual Travel Scheme launched in July 2003. However, the number of tourists from the mainland who chose to stay overnight in the city was on the decrease. For the first ten months of 2004, only 64.1% of mainlanders stayed overnight, lower than the 67% for the same period in 2003 and 69.7% in 2002. Mainlanders that stayed overnight were estimated to have spent an average of HK$6,000 per person as compared with HK$1,300 spent by same-day return visitors. The tourism boom drove the related retail sales up 18.2%, outpacing the overall 11.4% growth. Inbound tourism spending accounted for more than 20% of retail sales. In addition, inbound tourism had also stimulated local consumption after contracting for two straight years.

Benefiting from the strong tourism sector, unemployment rate dropped to a three-year low of 6.4% in the fourth quarter, and decreased further to 6.1% from December 2004 to February 2005. Hong Kong's Disneyland, with Phase I to be launched on September 12, 2005, is expected to attract 5 to 6 million visitors in its first year of operation: 1/3 from China, 1/3 from overseas, and 1/3 local. The inbound tourism outlook for 2005 remains positive. China's Individual Travel Scheme currently covers about 150 million residents in more than 16 cities and municipalities. In early 2005, Tianjin and Chongqing, two first tier cities, are authorized to be included in the Individual Travel Scheme, which inclusion will hopefully provide further impetus to growth of the local retail, hospitality and service industries.

OPERATIONS REVIEW *(Cont'd)*

LISTED INVESTMENTS REVIEW

Listed Investment Portfolio

As at December 31, 2004

Top ten listed securities	Nature of Business	Number of shares held	% held of total issued shares	Cost	Market value	% of net asset value	Dividend received
				US$	*US$*		*US$*
APT Satellite Holdings Ltd.	Operation of satellite telecommunication services	2,190,000	0.5299%	948,744	422,535	0.74%	–
AU Optronics Corporation	Electronics	420,000	0.0085%	721,198	607,372	1.06%	10,158
Cheung Kong (Holdings) Ltd.	Investment holding and project management	90,000	0.0039%	945,830	897,164	1.56%	19,392
Hutchison Whampoa Ltd.	Diversified corporation	100,000	0.0023%	985,317	935,752	1.63%	26,560
Kam Hing International Holdings Ltd.	Manufacturer and sales of finished knitted fabrics	2,942,000	0.4597%	480,148	586,546	1.02%	–
Midland Realty (Holdings) Ltd.	Real estate broking of all types of properties	592,000	0.0840%	283,919	335,044	0.58%	–
Sun Hung Kai Properties Ltd.	Development and investment in properties for sale and rental purposes	30,000	0.0012%	255,782	300,019	0.53%	6,360
Semiconductor Manufacturing International Corporation ("SMIC")*	Fabicate semiconductors for integrated circuit design	42,237,540	0.2316%	4,711,981	9,181,483	16.00%	–
TPV Technology Ltd.	Manufacture design and sales of computer monitors and scanners	500,000	0.0356%	310,095	299,055	0.52%	–
Taiwan Semiconductor Manufacturing Co., Ltd.	Production and sale of of semiconductors	486,920	0.0021%	771,817	774,715	1.35%	2,540
Total				10,414,831	14,339,685	24.99%	
Other listed securities				2,667,994	2,319,656	4.05%	
Total investment in listed securities				13,082,825	16,659,341	29.04%	

** 42,237,540 shares in SMIC were investment made in 2001 as unlisted securities and reclassified as listed securities at the time it becomes listed during the year.*

OPERATIONS REVIEW *(Cont'd)*

LISTED INVESTMENTS REVIEW *(Cont'd)*

Listed Investment Portfolio

As at December 31, 2003

Top ten listed securities	Nature of Business	Number of shares held	% held of total issued shares	Cost US$	Market value US$	% of net asset value	Dividend received US$
Anhui Conch Cement Company Limited	Production and sales of cement	200,000	0.0462%	226,238	257,629	0.48%	–
APT Satellite Holdings Ltd.	Satellite transponder services	2,877,000	0.6962%	1,246,363	880,174	1.63%	–
Aluminium Corporation of China Limited	Production and distribution of aluminium	400,000	0.0145%	252,115	304,002	0.56%	–
Cheung Kong (Holdings) Ltd.	Property development and investment holding	90,000	0.0039%	945,830	715,887	1.33%	18,493
China Unicom Limited	Telecommunication services	500,000	0.0040%	582,944	466,953	0.86%	6,041
CMC Magnetics Corporation	Optical media	500,000	0.0156%	381,140	387,049	0.72%	–
ENE Technology Inc. *	Cardbus and cardbay I C products	558,000	2.0411%	580,915	656,954	1.22%	–
Hutchison Whampoa Ltd.	Conglomerate	128,000	0.0023%	1,261,206	943,953	1.75%	28,451
Sinopec Corporation China Petroleum and Chemical Corporation	Production and distribution of petrochemicals in China	600,000	0.0036%	234,899	268,578	0.50%	–
Taiwan Semiconductor Manufacturing Co., Ltd.	Production and sale of semiconductors	226,800	0.0011%	381,426	423,894	0.79%	–
Total				6,093,076	5,305,073	9.84%	
Other listed securities				1,338,278	1,417,839	2.62%	
Total investment in listed securities				7,431,354	6,722,912	12.46%	

* *481,500 shares in ENE Technology Inc. were investment made in 2002 as unlisted securities and reclassified as listed securities at the time it becomes listed during the year.*

OPERATIONS REVIEW *(Cont'd)*

LISTED INVESTMENTS REVIEW *(Cont'd)*

Listed securities – Tradable

In 2004, the Hang Seng Index ("HSI") was up 13.2% year-on-year (35% in 2003), whereas the Hang Seng China Enterprise Index ("HSCEI" or the H-shares) fell 5.6% year-on-year for the period against a 152% increase in the previous year.

During the first quarter, the extended rally of HSI went into correction on March 1st. As a result, HSI was mildly up 0.8% during the quarter with utility stocks and consumer counters being out-performers. In January, Asia was again alarmed with the outbreak of virus linked directly to birds, and triggered the concern that economic growth in China for the year might be hampered. In March, China announced measures to selectively raise reserve requirement for bank deposits from 7% to 7.5% to tighten credit control. China play also succumbed to profit-taking after the HSCEI reached a peak at 5,441 in early January. HSCEI was down 4.8% for the quarter.

During the second quarter, the market continued to head south with concerns over the Fed fund rate hike and China's macro economic adjustments. HSI and HSCEI dived 3.12% and 10.19% respectively during the period until the HSI hit a low of 10,917 on May 17, 2004 and rebounded by over 1,300 points to 12,285 at the end of June on market consensus of a local economic recovery.

The weak US dollar, compounded by speculation on revaluation of the Renminbi, led to continued inflow of funds into the region in the third quarter, thus reversing the market direction in the second half of 2004. Attributable to a favorable Hong Kong economic outlook, sustained revival in consumer confidence and spending, HSI broke through its consolidation state in early September and closed the quarter 6.8% higher. HSCEI also went up 8.4% during the period.

HSI advanced even higher in the fourth quarter with a gain of 8.5%. Together with the rising market, trading volume also gradually picked up from an average daily turnover of HK$12.1 billion in the third quarter to a daily average close to HK$20 billion in the fourth quarter. HSCEI, despite being impacted by a series of corporate governance scandals, still managed to register a small gain of 1.97% during the fourth quarter.

In summary, the fourth quarter market rally was driven mainly by liquidity and improving economic fundamentals like robust property market, low interest rates, reduced unemployment rate, good corporate earnings and revival of local spending stimulated by inbound tourists from China.

OPERATIONS REVIEW *(Cont'd)*

LISTED INVESTMENTS REVIEW *(Cont'd)*

Listed securities – Tradable *(Cont'd)*

Judging from the recent fund flows and the general positive outlook on consumption, property and telecommunications sectors, coupled with anticipated increasing overseas visitors coming into Hong Kong in the coming year, the Company remains cautiously optimistic on the further advancement of the market in the coming year. During the year under review, the Company's listed securities investment recorded a gain of 29.26%.

Listed Securities – Non-tradable

Semiconductor Manufacturing International Corporation ("SMIC")

The principal business of SMIC is in the manufacturing of semiconductor chips, which includes wafer fab, process technology, IC design service, etc. In 2001, the Company invested US$6,024,000 in the unlisted shares of SMIC.

SMIC was dually listed in Hong Kong and the U.S. on March 18, 2004. The Company converted all its preference shares invested in SMIC to ordinary shares at its initial public offering. Accordingly, the Company's unlisted investment was reclassified as investments in listed securities. As part of the agreement between SMIC and its original shareholders prior to flotation, the Company elected to dispose 11,763,000 ordinary shares through SMIC's global offering and registered a realized gain of US$2.6 million. The remaining shares on hand are subject to ongoing investor obligations for 3 years lock up, during which period bi-annual openings will be offered to original shareholders to dispose, if they so elect, a certain percentage of their outstanding positions. Therefore, these shares subject to lock-up restriction are classified as non-tradable securities.

At present, SMIC's three fabs in Shanghai have reached a total capacity of 90,000 8-inch wafers per month and fab 7 in Tianjin is also in operation. Its first 12-inch fab in Beijing has already commenced volume production in September 2004, with initial production of high-density standard DRAM using 0.11 micron technology. The total capacity of fabs 1, 2 ,3, 4, and 7 reached 120,417 wafers per month (8-inch equivalent) at the end of 2004 with customer base in Asia, North America and Europe.

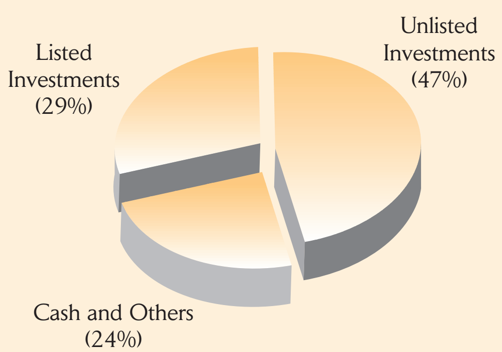
In January 2005, SMIC reached an out-of-court settlement with Taiwan Semiconductor Manufacturing Corporation, ending a yearlong legal dispute over alleged patent infringement and misappropriation of trade secrets. The market views the settlement as a positive impact on SMIC as it alleviates the legal overhang and allows it to pursue and develop its business without attending to the lawsuit.

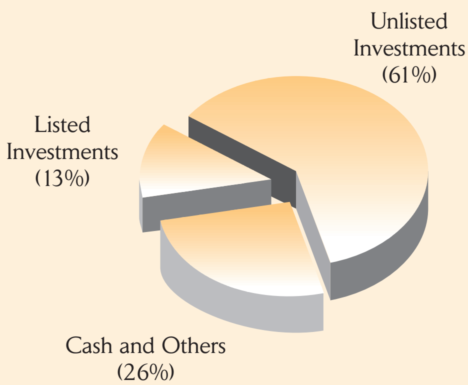
Given the global semiconductor industry is undergoing a consolidation period, despite SMIC's first mover advantage in China as the leading foundry, the Company remains vigilant on impact from changes in direction of the industry cycle and SMIC's competitive advantage to attract new customers.

OPERATIONS REVIEW *(Cont'd)*

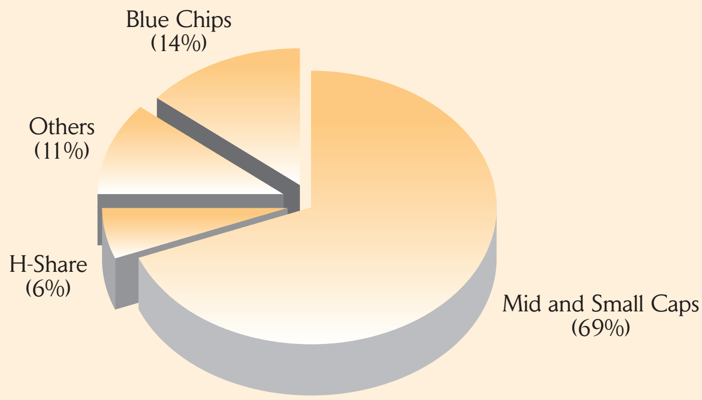
LISTED INVESTMENTS REVIEW *(Cont'd)*

Investment Allocation





Listed Securities Portfolio Allocation – As at December 31, 2004



Investment Performance

	Total Relative Performance 1 year (2004)	2 years (2003)	3 years (2002)
The Company's Listed Securities Portfolio*	29%	46%	33%
Hang Seng Index	13%	53%	25%
Hang Seng Midcap Index	22%	83%	68%
Hang Seng China Enterprise Index	-6%	138%	170%
Hang Seng China Affiliated Corp Index	9%	54%	16%
Shanghai B-Share Index	-28%	-33%	-56%
Shenzhen B-Share Index	-19%	18%	-17%
Peregrine Greater China Index	3%	68%	60%

* *Performance included cash available for investment in listed securities*

OPERATIONS REVIEW *(Cont'd)*

UNLISTED INVESTMENTS REVIEW

Unlisted Investments Portfolio

As at December 31, 2004

Committed Investments	Nature of Business	% of equity interest	Amount invested at cost *US$*	(Impairment) appreciation *US$*	Carrying value of investment at 31.12.2004 *US$*	% of net asset value	Dividend income *US$*	Accumulated dividend income *US$*
Shanghai Lian Ji Synthetic Fiber Co., Ltd.	Chemical Fibres	11.10	6,121,600	(1,000,000)	5,121,600	8.93	86,189	2,080,520
Suzhou Taihai Automobile Ferry Wharf Co., Ltd.	Automobile Ferries	31.00	1,119,972	–	1,119,972	1.95	438,183	2,287,075
Concord Greater China Limited	Hyper Markets	10.85	8,700,000	6,090,000	14,790,000	25.78	–	6,075,000
Shanghai Well Bright Foods Co., Ltd.	Frozen Prepared Food	27.83	3,960,000	–	3,960,000	6.90	–	403,248
Zhejiang Huguang Heat & Power Co., Ltd.	Power Supply	25.00	1,046,409	803,114	1,849,523	3.22	479,233	2,320,309
Shanghai Hua Xin High Biotechnology Inc.	Pharmaceuticals	20.00	1,924,000	(1,924,000)	–	–	–	–
Shanghai Xinpu Transportation Co., Ltd.	Land Transportation	34.90	698,000	(698,000)	–	–	–	–
			23,569,981	3,271,114	26,841,095	46.78	1,003,605	13,166,152

Notes:

(1) Everflow Capital Limited was voluntarily liquidated during the year.

(2) Investment in Semiconductor Manufacturing International Corporation ("SMIC") is reclassified from investment in unlisted securities to investment in listed securities upon the dual listing of SMIC in Hong Kong and the United States in March 2004.

(3) The investment of convertible note ("CN") issued by Sinowood Partners Limited ("SinoWood") matured on September 9, 2004. Pursuant to the terms and conditions of the CN's subscription agreement, Sinowood redeemed the CN at 106.24% of its principal price on maturity date.

(4) Investment in Shanghai Hua Yin Warehouse Co., Ltd. was disposed during the year.

OPERATIONS REVIEW *(Cont'd)*

UNLISTED INVESTMENTS REVIEW *(Cont'd)*

Unlisted Investments Portfolio

As at December 31, 2003

Committed Investments	Nature of Business	% of equity interest	Amount invested at cost US$	Impairment (appreciation) US$	Carrying value of investment at 31.12.2003 US$	% of Net asset value	Dividend income US$	Accumulated dividend income US$
Shanghai Lian Ji Synthetic Fiber Co., Ltd.	Chemical Fibres	11.10	6,121,600	–	6,121,600	11.35	–	1,994,331
Suzhou Taihai Automobile Ferry Wharf Co., Ltd.	Automobile Ferries	31.00	1,119,972	–	1,119,972	2.08	560,994	1,848,892
Concord Greater China Limited	Hyper Markets	10.85	8,700,000	2,700,000	11,400,000	21.14	–	6,075,000
Shanghai Well Bright Foods Co., Ltd.	Frozen Prepared Food	27.83	3,960,000	–	3,960,000	7.34	256,699	403,248
Everflow Capital Limited	Property Investment	19.00	2,185,000	–	2,185,000	4.05	2,413,000	2,413,000
Zhejiang Huguang Heat & Power Co., Ltd.	Power Supply	25.00	2,980,000	(2,528,485)	451,515	0.83	–	1,841,076
Semiconductor Manufacturing International Corporation	Semiconductors	0.40	6,024,251	–	6,024,251	11.17	–	–
Sinowood Partners Limited	Forestry	N/A*	1,800,000	–	1,800,000	3.34	–	–
Shanghai Hua Xin High Biotechnology Inc.	Pharmaceuticals	20.00	1,924,000	(1,924,000)	–	–	–	–
Shanghai Hua Yin Warehouse Co., Ltd.	Warehousing	34.90	1,047,000	(1,047,000)	–	–	–	–
Shanghai Xinpu Transportation Co., Ltd.	Land Transportation	34.90	698,000	(698,000)	–	–	–	–
			36,559,823	(3,497,485)	33,062,338	61.30	3,230,693	14,575,547

** No percentage of equity interest can be presented as the investment is a debt security.*

Notes:

(1) Investment in Harbin Brewery Group Limited was disposed of in the year 2003.

(2) Investment in ENE Technology Inc. was classified as listed investments at the time of it becomes listed in the year 2003.

OPERATIONS REVIEW *(Cont'd)*

UNLISTED INVESTMENTS REVIEW *(Cont'd)*

As at the end of December 2004, the Company's unlisted investments portfolio comprised of 7 investments, with a total fair value of US$26.84 million

China's economic growth remained robust with an overall GDP growth of 9.5% for 2004, lower than some forecasts but much higher than the Chinese government's initial target of 7.5%. To curtail overheated investments and inflation pressure, the Chinese Government instituted austerity measures in the second quarter to curb duplicate and excessive investments in certain sectors. Price controls, together with credit tightening, have achieved significant results and the Chinese economy is more assured of a soft landing objective.

The Company continued to adopt prudent and thorough investment approach to explore new investment opportunities. During 2004, the Company was presented with approximately 70 investment opportunities, out of which further works and research in a host of companies had been conducted. In-depth due diligence was conducted on one particular project and recommended for investment. After due discussion, approval was received from the investment committee to proceed. The Company however pulled back at the eleventh hour subsequent to materials terms previously agreed through negotiation were rescinded by the target investment, which action in conjunction with the Company's analysis of other mitigating factors prompted its decision to halt the process.

An aggregate dividend income of US$1,003,605 attributable to Suzhou Taihai Ferry Automobile Wharf Co., Ltd., Shanghai Lian Ji Synthetic Fibre Co., Ltd. and Zhejiang Huguang Heat and Power Co., Ltd., was recorded for the year ended December 31, 2004.

Apart from the reclassification of SMIC, the Company continued to make progress and successfully divested three unlisted investments during the year. Two conditional share sale agreements were entered into, one of which is already completed in January 2005, with the other one expected to complete in the same year.

Highlights of Progress

❖ **SMIC:** SMIC was dually listed on March 18, 2004 on the main board of the The Stock Exchange of Hong Kong Limited ("SEHK") and New York Stock Exchange. The Company converted all its investment in SMIC preference shares to ordinary shares at its initial public offering. These investments were reclassified as listed investments upon listing.

OPERATIONS REVIEW *(Cont'd)*

UNLISTED INVESTMENTS REVIEW *(Cont'd)*

Highlights of Progress *(Cont'd)*

❖ **Hua Yin Warehouse:** The Company finally disposed all its equity interest in Hua Yin Warehouse to a third party for a total consideration of RMB1,047,000 or approximately US$126,501 which amount was received in hard currency in July 2004.

❖ **Everflow Capital:** Everflow Capital finally completed its voluntary liquidation in November 2004. Subsequent to the winding up process, the Company received its pro-rata share of residual capital plus retained earnings.

❖ **Sino-Wood:** Sino-Wood redeemed all outstanding Convertible Note ("CN") on September 9, 2004, maturity date of the CN. The Company's US$1.8 million subscription in the CN was redeemed at a premium of 106.24%.

❖ **CGC:** The Company accepted an offer to dispose its entire beneficial interests in CGC at US$1.70 per share for a total consideration of US$14.79 million. Completion took place on January 25, 2005.

❖ **Zhejiang Huguang:** The Company identified a bona fide purchaser and entered into a sale and purchase agreement before the end of the year to dispose of its entire equity stake in Zhejiang Huguang. Completion is conditional upon the Company receiving from the purchaser US$3.52 million in full no later than March 31, 2005 or at such later date to be mutually agreed between parties.

Shanghai Lian Ji Synthetic Fiber Co., Ltd. ("Lian Ji")

Situated in the Pudong area of Shanghai Municipality, Lian Ji manufactures chemical fiber for the textile and chemical industries since 1994. In July 1995, the Company invested US$6,275,000 in exchange for 15% equity interest in Lian Ji. As part of the conditions to the Company's consent to Lian Ji's Phase III expansion, the Company disposed 3% of its shares to the other two shareholders in 2002. Subsequently, Lian Ji's board of directors resolved to distribute that portion of accumulated profits reserved for future expansion and/or repairs and maintenance to all shareholders, who in turn agreed to apply their respective entitlements to re-invest in Lian Ji's Phase III capacity expansion. As a result, the Company's investment in Lian Ji was adjusted to US$6,121,600, representing 11.1% of the enlarged share capital.

OPERATIONS REVIEW *(Cont'd)*

UNLISTED INVESTMENTS REVIEW *(Cont'd)*

Shanghai Lian Ji Synthetic Fiber Co., Ltd. ("Lian Ji") *(Cont'd)*

During 2004, oil price continued to escalate in the midst of geopolitical uncertainties in the Middle East and vigorous global recovery. High oil price resulted in short supply of raw materials like PTA and MEG. Faced with increased costs, Lian Ji endeavored to explore alternatives to lower their production costs, including the use of cheaper EPTA to replace some of the PTA in the production process and increased proportion of essential materials produced domestically. Nevertheless, downstream synthetic fiber market was still plagued by the overhang of overcapacity, lackluster cotton price and sluggish demand. As a result, selling price of Lian Ji's products was not able to offset the increased raw material costs, and its profit margin had been eroding since. On the other hand, Lian Ji anticipated that positive impact from abolishment of the textile quota in 2005 would help to improve the operating environment of the industry.

To enhance its competitiveness, Lian Ji has developed three new products: very short fiber, highly absorbent fiber, and thermal fiber. Thermal fiber has passed inspection test and received approval from the relevant authorities. The other two are still undergoing further technological refinement before they are ready for small-scale production in 2005.

When its Phase III 150,000 tons expanded production capacity came on stream, and its operation results had been reviewed by auditors appointed by the Company, Lian Ji reported a 2004 sales jump of 123.62% to RMB 2,386 million. However, due to huge foreign exchange loss arisen from loan borrowings for Phase III expansion, and high raw material costs, Lian Ji reported an operating loss of RMB 28.42 million compared with a RMB 9.30 million loss in 2003. In view of Lian Ji's continuing operating loss, the Company has concern over its management's ability to turn the situation around. Any improvement in Lian Ji's profitability in the short term is unlikely to happen, accordingly the Company has made a US$1 million provision for impairment in value for this investment as at December 31, 2004.

Suzhou Taihai Automobile Ferry Wharf Co., Ltd. ("Taihai Ferry")

Taihai Ferry was established in May 1995 to construct and operate a pier and vehicular ferry transportation services between Taicang City and Haimen City in Jiangsu Province for a period of 25 years. The Company invested US$2,661,440 in exchange for 34% equity interest in this project. As a result of subsequent capital reduction and share transfer, the Company's investment and shareholding in Taihai Ferry now stands at US$1.12 million and 31% respectively.

Addition of a new ferry during 2004 increased Taihai Ferry's transport capacity by 11% while vehicles transported climbed 12.76%. Taihai's revenue for 2004 surged 15.91% to RMB53.31 million and profit also rose 15.75% to RMB15.75 million.

OPERATIONS REVIEW *(Cont'd)*

UNLISTED INVESTMENTS REVIEW *(Cont'd)*

Suzhou Taihai Automobile Ferry Wharf Co., Ltd. ("Taihai Ferry") *(Cont'd)*

Although diesel price has increased by an average of 15.41% during 2004, Taihai Ferry adopted different measures to counter the impact. A just-in-time inventory management was adopted instead of having to build its own diesel storage facilities. Moreover, increased traffic of trucks with higher margin diverted to its ferries also improved Taihai Ferry's profitability. As a result, Taihai Ferry still managed to outperform its full year's target by achieving record sales and profits.

In the latter half of June, the State Administration of Foreign Exchange approved Taihai Ferry's 2003 dividend to be remitted in hard currency, and in late June, the Company received its entitlement of US$416,411.

In 2002, China's Transportation Bureau issued a decree requiring all vehicular ferries to comply with certain requirements over growing concern for safety during water transport. Taihai Ferry is confronted with either to refit all ferries or to build a new pier upstream, which will form a straight line sail course with the other side of the shore and will cut short the sailing time to within 30 minutes as mandated by the decree. The other two shareholders of Taihai Ferry favored the construction of a new pier upstream arguing it was a government policy they must comply, whereas the Company was opposed to the idea as that move would incur bank financing greater than Taihai's existing capitalization.

The Company's objection notwithstanding, the other two shareholders have incorporated a new company and proceeded with the construction of the new pier, which upon completion, will have ferries currently sailing to and from the old pier switched to the new one. The Investment Manager is in close communication with the other two shareholders to divest the Company's interest while looking for a purchaser to take over its existing interesting in Taihai.

Shanghai Well Bright Foods Co., Ltd. ("Well Bright")

Well Bright produces and distributes frozen, fried and prepared meat in China and its clientele includes Kentucky Fried Chicken ("KFC") and Pizza Hut. In March 1996, the Company invested US$3,960,000 for a 30% equity interest in Well Bright. The remaining 70% equity was beneficially owned by Amazing Results Corporation ("Amazing Results").

Under Amazing Results' management, some activities conducted were a departure from terms of the shareholders agreement with the Company, as such the Company has been in discussion with Amazing Results over corporate governance of Well Bright.

OPERATIONS REVIEW *(Cont'd)*

UNLISTED INVESTMENTS REVIEW *(Cont'd)*

Shanghai Well Bright Foods Co., Ltd. ("Well Bright") *(Cont'd)*

In 2003, Well Bright declared its inaugural dividend of which Amazing Results chose to apply its share of dividend for reinvestment in Well Bright. Consequently, the Company's equity interest was proportionately diluted to 27.38%.

In 2004, Well Bright recorded an audited revenue of RMB356 million, a 30.58% increase over the previous year, while its audited net profit dropped 29.83% to RMB6.84 million.

In the first quarter of 2004, concern over Avian Influenza found in some Asian countries adversely affected the sale of Well Bright's prepared chicken meat. Well Bright's management adjusted its product mix and resulted in robust sales in new products like ribs and have more than offset such negative impact.

To combat continuing erosion on its gross margin, Well Bright pushed for volume with lower prices. Well Bright also continued its product diversification by boosting sales in mutton and beef. In addition, Well Bright continued its effort in product development, such as introduction of roasted ribs and pork steak to supply KFC's upcoming pork burgers. Besides trying to secure a stronghold in China's domestic market, Well Bright's exports to Hong Kong and the Middle East have increased significantly comparing with the previous year.

The Company still disagrees with Amazing Results over its casual attitude and blatant disregard to comply with the shareholders agreement. Despite numerous discussions held with Amazing Results, the Company has yet to find a satisfactory solution to exit from this investment.

Concord Greater China Limited ("CGC")

In September 1998, the Company entered into a contract with Concord Champion Ltd. ("CCL") to invest US$8,700,00 for 22.48% of its equity interest. CCL is an investment holding company incorporated in the British Virgin Islands. Its principal business is to invest in and develop hypermarkets in China. In December 2000, CCL was restructured with the incorporation of a holding company CGC to become its parent company. Pursuant to the restructuring, the Company's equity interest in CCL was proportionately transferred without prejudice to shares in CGC. To establish market share and achieve a critical mass, CGC has resolved to enlarge its capitalization through a series of capital injections. Since then, a series of additional capital has been called by CGC and participated by other shareholders. Due to the size already invested, the Company did not participate in any of the subsequent capital injections. As a result, the Company's equity interest in CGC had been diluted to 10.85% since 2003.

OPERATIONS REVIEW *(Cont'd)*

UNLISTED INVESTMENTS REVIEW *(Cont'd)*

Concord Greater China Limited ("CGC") *(Cont'd)*

CGC uses RT-Mart Shanghai Limited ("RTMS") and Jinan People's RT-Mart Limited ("RTMJ") as its two project-holding companies, each with a number of hypermarkets under its respective management. CGC's business model is through rapid store rollouts to take advantage of China's strong economic growth and rising household income. As at the end of 2004, RTMS and RTMJ operate 25 and 10 hypermarkets respectively.

In 2001, CGC entered into an equity joint venture with Auchan S.A., which also invests in and develops the hypermarket business in China. Auchan S.A.'s operating philosophy is to acquire land, build its hypermarkets, operate and manage its own stores, in which case initial capital outlay would be substantial and progress relatively slow comparing to CGC's modus operandi. Thus when results of Auchan S.A. are consolidated with that of CGC, profit margins will be diluted due to the different business models. It is envisaged that CGC is not likely to distribute dividend in the near future, as its earnings would be ploughed back for further expansion. Against that backdrop and when approached by one of CGC's shareholders, the Company accepted the offer to dispose the Company's entire beneficial interests in CGC at US$1.70 per share for a total consideration of US$14.79 million. The sale and purchase agreement was entered into before the end of 2004, and was completed on January 25, 2005. As of the reporting date, the Company is already in receipt of the total consideration. The Company's divestment of its stake in CGC represented an overall return of US$12.165 million (inclusive of prior dividends received) or a total return of 139.83% over the investment period.

Zhejiang Huguang Heat and Power Co., Ltd. ("Zhejiang Huguang")

Zhejiang Huguang supplies thermal power and electricity to industrial users in Shaoxing City, Zhejiang Province. In June 1994, the Company invested US$2,980,000 for a 25% equity stake in the company. According to the contract, the Company is entitled to a fixed annual return of US$596,000 inclusive of principal and guaranteed return to be amortized over the 11 years duration of the agreement.

Beginning 1998, the Chinese Government decreed against guaranteed return to be made by any Chinese partner to its foreign counterparts in all sino-foreign joint ventures. Citing the decree as an excuse, Zhejiang Huguang has suspended the fixed annual return to the Company as of 2001. The Company has been working since to find an alternative to resolve the impasse.

OPERATIONS REVIEW *(Cont'd)*

UNLISTED INVESTMENTS REVIEW *(Cont'd)*

Zhejiang Huguang Heat and Power Co., Ltd. ("Zhejiang Huguang") *(Cont'd)*

The Company's investment in Zhejiang Huguang will lapse in July 2005. As a result of continuous effort to resolve the stalemate, the Investment Manager has over the years been in negotiation with the other shareholder to exit from this investment.

In 2004, the Investment Manager identified a third party purchaser to acquire the Company's stake in Zhejiang Huguang. Upon obtaining consent from its Chinese counterpart not to exercise its pre-emption right, the Company entered into a sales and purchase agreement with the other shareholder to dispose of its entire equity stake in Zhejiang Huguang to the purchaser. Completion of the share sale is conditional upon the Company receiving US$3.52 million in full no later than March 31, 2005 or a date as mutually agreed by both parties (inclusive of the past 3 years' dividend already paid to the Company in RMB while pending approval for repatriation). Upon fulfillment of all conditions precedent, the Company's investment in this project will achieve an overall return of 104.78%.

Exited Investments

Shanghai Hua Yin Warehouse Co., Ltd. ("Hua Yin Warehouse")

In 1994, Hua Yin Warehouse built a 14,000 square meter warehouse near Gao Qiao Free Trade Zone in Pudong District, Shanghai to provide and operate warehousing facilities. That same year, the Company invested US$1.047 million for a 34.9% equity interest in Hua Yin Warehouse.

Due to poor management, Hua Yin Warehouse's business declines and operates in the red for years, to the point it has difficulties to repay bank loans. In view of its performance or the lack of it, the Investment Manager had been actively looking for a purchaser and finally was able to dispose all the Company's equity interest in Hua Yin Warehouse to a third party for RMB1,047,000 or equivalent to US$126,501 approximately. The project has been fully provided for in previous years, and the consideration for the share sale is the residual amount it managed to recoup. The Company's investment in this project resulted in a loss of approximately US$920,000.

Everflow Capital Limited ("Everflow Capital")

Everflow Capital is an investment holding company incorporated in the British Virgin Islands. Samson Assets Limited is its wholly-owned subsidiary, which sole underlying asset is Aetna Tower, a quality commercial building in Shanghai. The Company's original investment in Everflow Capital was US$5,035,000, but pursuant to a capital reduction, was reduced to US$2,185,000, representing a 19% equity interest.

OPERATIONS REVIEW *(Cont'd)*

UNLISTED INVESTMENTS REVIEW *(Cont'd)*

Everflow Capital Limited ("Everflow Capital") *(Cont'd)*

In 2003, Aetna Tower was sold. Accordingly, shareholders of Everflow Capital agreed to wind up the project company after the sale. To expedite the winding up process, the procedures involved capital reduction and voluntary liquidation of Everflow Capital. The former allowed distribution to shareholders in the form of return of capital. The latter would strike off Everflow Capital from the company registry as a validly existing legal entity. The voluntary liquidation was completed towards the end of 2004; as a result, the Company received its pro-rata share of remaining capital plus retained earnings. Taking into account dividends already received, the Company achieved an overall return of 111% on this investment.

Sino-Wood Partners, Limited ("Sino-Wood")

In February 2003, the Company entered into an agreement with Sino-Wood, a wholly-owned plantation subsidiary of the Toronto listed Sino-Forest, to subscribe for US$1,800,000 worth of its convertible notes ("CN") with an 18-months tenor. The CN would pay coupon rate of 4% per annum payable semi-annually.

In 2004, Sino-Wood applied for listing on the main board of the SEHK and was told to furnish additional information to fulfill the listing committee's approval process. In order for Sino-Wood to satisfy SEHK's request, it would invariably stretch beyond September 9, 2004, the maturity date of the CN. In accordance with the CN subscription agreement, Sino-Wood redeemed all the outstanding CN at a premium of 106.24%. Inclusive of coupon rate already received for the tenor, the Company's total return in this 18 months' investment was 12.31%.

DIRECTORS' REPORT

The Directors present their annual report and the audited financial statements for the year ended December 31, 2004.

PRINCIPAL ACTIVITIES

The Company is an investment company which principal business is to make direct investments in operating companies and other entities established or having significant operations in or business with the People's Republic of China ("PRC") by non-PRC persons. The investment philosophy of the Company has been placed on identifying, screening, analyzing, and conducting due diligence on investment potentials in the Greater Shanghai Region, principally in wholly foreign-owned enterprises, existing or newly established Sino-foreign equity joint ventures or co-operative joint venture enterprises, joint stock companies, or other vehicles authorized for foreign investments under applicable laws of the PRC with the objective of obtaining long term capital appreciation. The Company can also invest in projects within the Greater China confine.

RESULTS AND APPROPRIATIONS

The results of the Company for the year ended December 31, 2004 are set out in the income statement on page 40.

The Board proposes the payment of a final dividend of US$0.30 per share and a special final dividend of US$1.20 per share in cash for 2004.

SHARE CAPITAL

Details of the share capital of the Company are set out in note 13 to the financial statements.

DIRECTORS' REPORT *(Cont'd)*

DIRECTORS

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

Executive Directors:

Mr. Wu, Choi Sun William
Dr. Xue, Wanxiang

Independent Non-Executive Directors:

Mr. Ong, Ka Thai
Mr. Yick, Wing Fat Simon
Dr. Hua, Min (appointed on September 28, 2004)

Other Non-Executive Directors:

Mr. Cai, Nongrui
Mr. Chao, Hsi-hsiang
Mr. Chen, Chi-chuan
Mr. Chiang, Ching-yee
Mr. Chiu, Tak-chiang (also known as Yau, Tak-chiang)
Mr. Hu, Jinggang
Dr. Wang, Changhong
Mme. Yin, Wong Yee-fan
Mr. Zhou, Youdao
Mr. Tseng, Ta-mon (appointed on March 23, 2005)
Mr. Sun, Taotsun (retired on May 11, 2004)

All Directors are subject to retirement by rotation in accordance with the Company's Articles of Association. Subject to the above, the Independent Non-Executive Directors were each appointed for a term of two years.

At the forthcoming annual general meeting of the Company, Dr. Hua Min, Mr. Tseng Ta-mon, Mr. Chao Hsi-hsiang, Mr. Ong Ka Thai, Dr. Wang Changhong, Mr. Wu Choi Sun William and Mr. Zhou Youdao will retire as directors in accordance with Article 93 and 98(b) of the Company's Articles of Association. Except for Mr. Chao Hsi-hsiang, all of them, being eligible, offer themselves for re-election. All other remaining directors continue in office.

None of the Directors proposed for re-election at the forthcoming annual general meeting of the Company has a service contract with the Company which is not determinable by the Company within one year without payment of compensation other than statutory compensation.

DIRECTORS' REPORT *(Cont'd)*

BIOGRAPHICAL DETAILS OF DIRECTORS

Mr. Wu, Choi Sun William

Executive Director of the Company and Managing Director of the Investment Manager, Mr. Wu, aged 56, was appointed to the offices in June and February 2001 respectively. Prior to joining the Company, Mr. Wu was Executive Director of two listed companies under the Tomson Group, which has significant direct investments in the PRC. Before returning to Hong Kong, Mr. Wu was the Senior Vice President and a member of the board of Webster Johnson & Stowell, a U.S. consulting company specializing in difficult markets. Mr. Wu has profit and loss responsibilities for all seven offices in the Pacific Rim. Mr. Wu holds a Bachelor of Science degree and a Master's degree in Business Administration from the University of San Francisco. Apart from a full spectrum of corporate management responsibilities in listed companies, Mr. Wu has over 25 years' experience in business development, advisory, corporate finance and equity investment. He is a responsible officer of the Investment Manager, registered with The Securities and Futures Commission of Hong Kong.

Dr. Xue, Wanxiang

Executive Director of the Company and Vice President of the Investment Manager, Dr. Xue, aged 39, was appointed to the offices when he joined the Company in June 2003. Dr. Xue holds a doctorate degree in Economics from Shanghai Fudan University, PRC since 1995. He obtained his Master's degree in Economics and Bachelor of Science degree from East China Normal University, PRC. Before joining the Company, Dr. Xue was the Deputy General Manager of Shanghai Securities Co., Ltd. since 2001, the head of two departments in Fujian Industrial Bank Co., Ltd., Shanghai Branch since 1998, and an official of the Peoples Bank of China, Shanghai Branch since 1995. Dr. Xue has over 10 years' senior management experience in the banking and securities sector in the PRC.

Mr. Ong, Ka Thai

Independent Non-Executive Director and a member of the Audit Committee of the Company, Mr. Ong, aged 50, was appointed in June 1997. Mr. Ong is the Chairman of a number of companies including Ong First Pte. Ltd., Ong Commodities Pte. Ltd. and Ong Pacific Capital Ltd. Mr. Ong holds a Bachelor of Arts degree in Economics from the University of California at Los Angeles. He had served as CEO for a number of multinational joint ventures, and is a director of Singamas Container Holdings Ltd., a company listed on The Stock Exchange of Hong Kong Limited. Mr. Ong has over 25 years of experience in manufacturing, corporate and trade finance, regional equity, futures and commodities trading, investment banking and corporate advisory services, as well as direct and private equity investments.

DIRECTORS' REPORT *(Cont'd)*

BIOGRAPHICAL DETAILS OF DIRECTORS *(Cont'd)*

Mr. Yick, Wing Fat Simon

Independent Non-Executive Director and Chairman of the Audit Committee, Mr. Yick, aged 46, has been serving on the board of the Company since July 1999. Mr. Yick holds a Bachelor's degree in Business Administration, majoring in Accounting from the Chinese University of Hong Kong. He is an associate member of the Hong Kong Institute of Certified Public Accountants and a fellow member of the Chartered Association of Certified Accountants in England. Mr. Yick has over 20 years of experience in audit, direct investment, investment banking and corporate advisory services.

Dr. Hua, Min

Independent Non-Executive Director and a member of the Audit Committee, Dr. Hua, aged 53, was appointed in September 2004. Dr. Hua graduated from Fudan University with a Bachelor's degree in Economics and holds a Doctorate in World Economics from the Fudan University. He is currently the Chairman of Institute of World Economy, Fudan University, Chief of World Economy Department and vice-chief of Academic Committee of Fudan University. Dr. Hua is a professorial and doctorate advisor and has been engaged in teaching and researching in world economics, China economics and finance in Fudan University since 1990. He is one of the advisors of Policy-Making Committee of Shanghai Municipal government.

Mr. Cai, Nongrui

Non-Executive Director of the Company and a director of the Investment Manager, Mr. Cai, aged 56, was appointed to the offices in December 1997. Mr. Cai joined Shanghai International Trust & Investment Corporation ("SITICO") and has held various senior capacities including Deputy General Manager of General Office; Deputy General Manager of Accounting and Planning Division; General Manager of Accounting Division; General Manager of Finance Division I; Senior Vice President cum Vice Chief Economist; Chief Economist. Mr. Cai is the chief financial officer of the Yangshan Deepwater Port project to transform Shanghai's waterfront and container handling facilities.

Mr. Chao, Hsi-hsiang

Non-Executive Director, Mr. Chao, aged 76, was appointed in January 1994. Mr. Chao is the Chairman of Ruentex Development Co., Ltd. ("Ruentex Development"), a company listed on the Taiwan Stock Exchange. Mr. Chao has more than 26 years of experience in construction and business development. Mr. Chao will retire as director at the forthcoming annual general meeting of the Company and does not offer himself for re-election.

DIRECTORS' REPORT *(Cont'd)*

BIOGRAPHICAL DETAILS OF DIRECTORS *(Cont'd)*

Mr. Chen, Chi-chuan

Non-Executive Director and a member of the Audit Committee, Mr. Chen, 47, was appointed in March 2003. Mr. Chen joined the Ruentex Group in Taiwan since 1987 and is currently the Vice President of Hei Hong Investment Co., Ltd., with responsibilities for all equity investment activities in Asia. Mr. Chen holds a Master's degree in Business Administration from the National Taiwan University.

Mr. Chiang, Ching-yee

Non-Executive Director, Mr. Chiang, aged 72, was appointed in January 1994. Mr. Chiang graduated with a degree in Scientific Technology and has been in the can manufacturing and metal forming business for over 40 years. He is President of China Can Printing & Metal MFG., Co., Ltd. and Chairman of Great China Metal Ind., Co., Ltd. since 1973.

Mr. Chiu, Tak-chiang (also known as Yau, Tak-chiang)

Non-Executive Director of the Company and a director of the Investment Manager, Mr. Chiu, aged 51, was appointed to the offices in January 2002. Mr. Chiu is Managing Director of SinoPac Capital Limited, a wholly-owned subsidiary of SinoPac Financial Holdings Limited, a listed banking group in Taiwan. Prior to joining this banking group, Mr. Chiu worked at Citibank, Masterlink Securities Co., Ltd. and Investlink Co. Ltd. of Taiwan and has over 23 years of experience in investment banking, corporate finance, advisory and operation of market instruments. Mr. Chiu holds a Master's degree in International Management from the American Graduate School of International Management.

Mr. Hu, Jinggang

Non-Executive Director of the Company and a director of the Investment Manager, Mr. Hu, aged 52, was appointed to the offices in March 1999. Mr. Hu is a graduate of the Faculty of International Finance of the Shanghai East China Normal University. Mr. Hu had held various positions in the Shanghai Municipality since 1977. From 1987, he served as assistant director, deputy director, and director of the International Relations Department of China Council for the Promotion of International Trade, Shanghai Sub-council. He has been senior vice president of SITICO since December 1998.

Mr. Wang, Changhong

Non-Executive Director, Dr. Wang, 46, was appointed in March 1999. He joined Nomura International (Hong Kong) Limited in 1994 and is the director of corporate finance. Dr. Wang graduated with a Bachelor of Arts degree from Nanjing University in the PRC and holds a Doctorate of Philosophy and a Doctorate of Jurisprudence from the University of Pennsylvania, U.S.A.

DIRECTORS' REPORT *(Cont'd)*

BIOGRAPHICAL DETAILS OF DIRECTORS *(Cont'd)*

Mme. Yin, Wong Yee-fan

Non-Executive Director, Mrs. Yin, 57, was appointed in January 1994. Mrs. Yin holds a Bachelor's degree in Economics from the Fu Jen Catholic University, Taiwan. Mrs. Yin is the Chairman of Ruentex Industries Limited and a director of Ruentex Development, both companies are listed on the Taiwan Stock Exchange.

Mr. Zhou, Youdao

Non-Executive Director of the Company and chairman of the Investment Manager, Mr. Zhou, aged 66, was appointed Director in December 1998. Mr. Zhou was deputy bureau chief of Shanghai Finance Bureau's First Division since May 1969. In August 1984 he was deputy head of the Financial and Monetary Department of The Finance and Trade Office of Shanghai Municipal Government and became the deputy chairman of Shanghai Finance Bureau. In December 1985, he was Deputy Bureau Director of Shanghai Finance Bureau which he later became chairman. He as appointed Chairman and President of SITICO since April 1998. Mr. Zhou is also the chairman of Shanghai International Group Corporation Limited, a holding company incorporated to hold all assets of SITICO.

Mr. Tseng, Ta-mon

Non-Executive Director, Mr. Tseng, aged 46, was appointed in March 2005. Mr. Tseng is a Barrister-at-Law. He is a laws graduate from the National Chengchi University, Taiwan, and holds a Master's degree in Laws from the University College London, a Bachelor's degree in Arts from Cambridge University and was called to the English Bar in 1985. Since 1993, Mr. Tseng has been the house counsel of the Ruentex Group of Companies in Taiwan.

INVESTMENT MANAGEMENT AND ADMINISTRATION AGREEMENT AND CONNECTED TRANSACTIONS

The Company's investment portfolio is managed by Shanghai International Asset Management (Hong Kong) Company Limited (the "Investment Manager") pursuant to the terms and conditions of an investment management and administration agreement (the "Investment Management Agreement") between the Company and the Investment Manager dated November 12, 1993, as supplemented by supplemental agreements dated January 22, 2001, September 12, 2001 and November 3, 2003 respectively.

DIRECTORS' REPORT *(Cont'd)*

INVESTMENT MANAGEMENT AND ADMINISTRATION AGREEMENT AND CONNECTED TRANSACTIONS *(Cont'd)*

The Investment Management Agreement is terminable by either the Company or the Investment Manager giving not less than two months' notice in writing ("Notice of Termination") to the other party after a period of five years from January 1, 2001 and is terminable at any time in accordance with certain terms in the agreement. In accordance with certain terms of the agreement, if neither the Company nor the Investment Manager serves any Notice of Termination on or prior to the expiry of the five-year period, the term of the Investment Management Agreement shall automatically renew for another minimum term of five years immediately thereafter.

In accordance with the terms of the agreements, the Investment Manager is entitled to receive an aggregate management and administration fee and an incentive fee. The investment management and administration fee is calculated and payable in U.S. dollars quarterly in advance, at the rate of 0.5% per quarter of the net asset value (calculated before deductions of the fees payable to the Investment Manager, the investment adviser and the custodian for that quarter) of the Company calculated on the last business day of the previous quarter. The Investment Manger is entitled to an incentive fee equal to 15% of the amount by which that portion of the net asset value of each of the assets which represent listed securities (the "Listed Investment Portfolio") or assets which represent unlisted securities or interest (the "Unlisted Investment Portfolio") as at December 31 of each year exceeds 115% of that portion of the net asset value of the respective Listed Investment Portfolio or Unlisted Investment Portfolio as at December 31 of the immediately preceding year. The incentive fee so determined and the payment thereof to the Investment Manager in respect of the Listed Investment Portfolio or the Unlisted Investment Portfolio shall be independent of each of such portfolios. However, no incentive fee shall be payable if the net asset value of the Company at December 31 of the relevant year is less than US$6.20 (the "threshold"), which shall be adjusted according to the actual amount of special dividends paid out during the immediately preceding year. The threshold is now adjusted to US$5.70 subsequent to payment of special dividend in June 2004 at US$0.50 per share.

The Company has been granted a waiver from the Listing Division of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") from strict compliance with the connected transaction requirements in respect of the provision of investment management and administration services (the "Transactions") by the Investment Manager to the Company pursuant to the aforesaid Investment Management Agreement.

Total investment management and administration fees paid to the Investment Manager for the year ended December 31, 2004 amounted to US$1,121,335. No incentive fee has been paid to the Investment Manager for the year.

DIRECTORS' REPORT *(Cont'd)*

INVESTMENT MANAGEMENT AND ADMINISTRATION AGREEMENT AND CONNECTED TRANSACTIONS *(Cont'd)*

The independent non-executive directors have reviewed the Transactions and confirmed that (i) the Transactions have been entered into by the Company in the ordinary and usual course of its business, on normal commercial terms and on terms that are fair and reasonable so far as the shareholders of the Company are concerned, and in accordance with the terms and conditions of the Investment Management Agreement and the supplemental agreements thereto, and (ii) the total consideration of the Transactions does not exceed the cap as stipulated by the Stock Exchange in the waiver, namely the higher of either HK$10,000,000 or 3% of the audited consolidated net tangible asset of the Company as disclosed in the Company's latest published accounts.

Mr. Wu Choi Sun, William, Dr. Xue Wanxiang, Mr. Cai Nongrui, Mr. Chen Chi-chuan, Mr. Chiu Tak-chiang, Mr. Hu Jinggang and Mr. Zhou Youdao are also directors of the Investment Manager.

DIRECTORS' INTERESTS OR SHORT POSITIONS IN SHARES

At December 31, 2004, the interests or short positions of the Company's directors 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") were stated as follows:

Long positions in the ordinary shares of US$0.1 each of the Company:–

Name of director	**Capacity**	**No. of ordinary shares interested**	**Percentage of total issued shares**
Mr. Chao Hsi-hsiang	Interest in controlled corporation	100,000 *(Note)*	1.12%
Mr. Chiang Ching-yee	Beneficial owner	51,000	0.57%

Note: Mr. Chao Hsi-hsiang has a 33% interest in Tong Yuan International Ltd., which in turn holds a 1.12% interest in the Company.

Save as disclosed above, none of the directors nor their associates had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations as at December 31, 2004.

DIRECTORS' INTEREST IN CONTRACTS

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

DIRECTORS' REPORT *(Cont'd)*

ARRANGEMENT TO PURCHASE SHARES OR DEBENTURES

None of the Directors or their spouses or children under the age of 18 had any right to subscribe for securities of the Company, or had exercised any such right during the year.

At no time during the year was the Company 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.

SUBSTANTIAL SHAREHOLDERS

Other than disclosed under "Directors' Interests or Short Positions in Shares", as at December 31, 2004, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO shows that the following shareholders had notified the Company of relevant interests in the issued share capital of the Company.

Long positions in the ordinary shares of US$0.10 each of the Company:–

Name	**Number of shares**	**Approximate percentage**	*Notes*
Mr. Jacob Ezra Merkin	1,956,500	21.97%	*(1)*
Gabriel Capital Corporation ("GCC")	1,402,491	15.75%	*(1)*
Gabriel Capital, L.P. ("Gabriel")	554,009	6.22%	*(1)*
Ariel Fund Limited ("Ariel")	799,190	8.97%	*(1)*
Mr. Hsu Sheng-yu	1,075,040	12.07%	*(2)*
Chung Chia Co., Ltd. ("Chung Chia")	598,743	6.72%	*(2)*
Kwang Shun Co., Ltd. ("Kwang Shun")	476,297	5.35%	*(2)*
Ms. Hsu Tsui-hua	598,743	6.72%	*(3)*
Ms. Chang Hsiu-yen	476,297	5.35%	*(4)*
Shanghai International Group Corporation Ltd.	503,000	5.65%	*(5)*
Shanghai International Trust Investment Corporation ("SITICO")	503,000	5.65%	*(5)*
Temasek Holdings (Private) Ltd.	500,000	5.61%	*(6)*
Hong Lim Fund Investments Pte Ltd.	500,000	5.61%	*(6)*
Sinopac Global Investment Ltd. ("Sinopac Global")	603,752	6.78%	*(7)*
Ruentex Industries Ltd.	860,752	9.67%	*(7), (8)*
Ruentex Development Co., Ltd.	831,752	9.34%	*(7), (9)*

DIRECTORS' REPORT *(Cont'd)*

SUBSTANTIAL SHAREHOLDERS *(Cont'd)*

Notes:

(1) Mr. Jacob Erza Merkin is the General Partner of Gabriel, he was deemed to be interested in 1,956,500 shares by virtue of his 100% control over GCC and Gabriel. Besides, GCC was also deemed to be interested in the Company through its management of Ariel and other funds.

(2) Mr. Hsu Sheng-yu has an indirect interest in the Company through his 50% beneficial interest in each of Chung Chia and Kwang Shun.

(3) Ms. Hsu Tsui-hua has an indirect interest in the Company through her 50% beneficial interest in Chung Chia.

(4) Ms. Chang Hsiu-yen has an indirect interest in the Company through her 50% beneficial interest in Kwang Shun.

(5) Shanghai International Group Corporation Ltd has an indirect interest in the Company through its approximately 66.33% equity interest in SITICO.

(6) Hong Lim Fund Investments Pte. Ltd. is a wholly-owned subsidiary of Temasek Holdings (Private) Ltd.

(7) Ruentex Construction Int'l (BVI) Ltd. ("Ruentex Construction") and Full Shine Int'l Holdings Ltd. ("Full Shine") each has a 49.06% equity interest in Sinopac Global.

(8) Apart from a direct holding of 257,000 shares in the Company, Ruentex Industries Limited has held indirect interest in the Company through its 100% ownership in Full Shine.

(9) Apart from a direct holding of 228,000 shares in the Company, Ruentex Development Co., Ltd has held indirect interest in the Company through its 100% ownership in Ruentex Construction.

Other than disclosed above, the Company has not been notified of any other interests or short positions representing 5% or more of the Company's issued share capital as at December 31, 2004.

LIQUIDITY, FINANCIAL RESOURCES, GEARING AND CAPITAL COMMITMENT

As a result of its success in exiting from invested projects, the Company is able to continue and maintain a stable and liquid position in 2004 even after the dividend payout of US$7,124,000 for 2003. As at December 31, 2004, the Company's cash and bank balances were US$13,038,078 (2003: US$13,777,598) without any bank borrowing.

The Company did not have any capital commitment on its unlisted investments at the end of December 2004 and 2003 respectively.

DIRECTORS' REPORT *(Cont'd)*

EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES AND RELATED HEDGES

As a majority of the Company's assets are denominated in United States dollars, the reference currency in which the Company's accounting records are maintained, no material exposure to exchange rate fluctuations is expected. Accordingly, there were no hedging instruments transacted to cover such exposure.

STAFF COSTS

Other than a qualified accountant as required under the amended Listing Rules, the Company has no employee. The Company continues to delegate the day-to-day administration of its investment portfolio to the Investment Manager. Total staff cost of the Company excluding directors' emoluments, paid during the year was approximately US$12,800, staff remuneration package is in line with prevailing market practice and are determined on the basis of the performance and experience of individual employee.

INVESTMENTS

Details of the top ten holdings of listed investments and the unlisted investments as at December 31, 2004 are set out on pages 11 and 16 respectively.

MAJOR CUSTOMERS AND SUPPLIERS

A substantial portion of the Company's income is derived from the Company's investments and bank deposits and the disclosure of information regarding customers would not be meaningful. The Company has no major suppliers requiring disclosure.

PURCHASE, SALE OR REDEMPTION OF SHARES

The Company did not purchase, sell or redeem any of the Company's shares during the year.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's Articles of Association although there are no restrictions against such rights under the laws in the Cayman Islands.

DIRECTORS' REPORT *(Cont'd)*

CORPORATE GOVERNANCE

The Company has complied throughout the year ended December 31, 2004 with the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

SUFFICIENCY OF PUBLIC FLOAT

The Company has maintained a sufficient public float throughout the year ended December 31, 2004.

AUDITORS

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

On behalf of the Board

Wu, Choi Sun William
Executive Director

Hong Kong, March 23, 2005

AUDITORS' REPORT

Deloitte.
德勤

TO THE SHAREHOLDERS OF
SHANGHAI INTERNATIONAL SHANGHAI GROWTH INVESTMENT LIMITED
(incorporated in the Cayman Islands with limited liability)

We have audited the financial statements on pages 40 to 51 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Company's Directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view, it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

BASIS OF OPINION

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Institute of Certified Public Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

AUDITORS' REPORT *(Cont'd)*

OPINION

In our opinion the financial statements give a true and fair view of the state of the Company's affairs as at December 31, 2004 and of its profit and cash flows for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu
Certified Public Accountants

Hong Kong, March 23, 2005

INCOME STATEMENT

For the year ended December 31, 2004

	Notes	2004 US$	2003 US$
Investment income	3	**1,310,704**	3,512,782
Gain (loss) on sale of investments in listed securities		**2,465,555**	(413,326)
Gain on sale of investments in unlisted securities		**264,350**	573,818
Impairment loss recognised in respect of unlisted investments		**(1,000,000)**	(1,112,509)
Reversal of impairment loss previously recognised in respect of an unlisted investment		**594,895**	820,000
Loss on disposal of a property held for resale		**–**	(42,572)
Other operating income		**–**	44,141
		3,635,504	3,382,334
Operating expenses			
Investment Manager's fee		**1,121,335**	1,043,854
Administrative expenses			
Directors' remuneration	4	**29,029**	25,704
Other administrative expenses	5	**401,748**	342,045
		1,552,112	1,411,603
Profit before taxation		**2,083,392**	1,970,731
Taxation	6	**–**	1,200,000
Net profit for the year		**2,083,392**	3,170,731
Dividends	7	**13,357,500**	7,124,000
Earnings per share – Basic	8	**23.4 cents**	35.6 cents

BALANCE SHEET

At December 31, 2004

	Notes	2004 US$	2003 US$
Non-current assets			
Investments in unlisted securities	9	**26,841,095**	33,062,338
Investments in listed securities – tradable	10	**9,238,632**	6,722,912
Investment in listed securities – non-tradable	11	**7,420,709**	–
		43,500,436	39,785,250
Current assets			
Property held for resale	12	**567,000**	567,000
Dividend, interest and other receivables and prepayments		**615,249**	630,960
Bank balances		**13,038,078**	13,777,598
		14,220,327	14,975,558
Current liabilities			
Creditors and accrued charges		**54,547**	547,809
Amount due to Investment Manager	16	**292,694**	276,941
		347,241	824,750
Net current assets		**13,873,086**	14,150,808
		57,373,522	53,936,058
Capital and reserves			
Share capital	13	**890,500**	890,500
Reserves		**56,483,022**	53,045,558
		57,373,522	53,936,058
Net asset value per share	14	**6.44**	6.06

The financial statements on pages 40 to 51 were approved and authorised for issue by the Board of Directors on March 23, 2005 and are signed on its behalf by:

Zhou, Youdao
Director

Wu, Choi Sun William
Director

STATEMENT OF CHANGES IN EQUITY

For the year ended December 31, 2004

	Share capital US$	Share premium US$	Capital reserve US$	Accumulated profits US$	Total US$
At January 1, 2003	890,500	58,372,935	(12,113,123)	5,228,531	52,378,843
Net unrealised gains on revaluation of investments in listed securities	–	–	2,455,015	–	2,455,015
Reversal of unrealised gains on revaluation of unlisted investments upon disposal	–	–	(506,531)	–	(506,531)
Net gains not recognised in the income statement	–	–	1,948,484	–	1,948,484
Net profit for the year	–	–	–	3,170,731	3,170,731
Transfers to capital reserve:					
– Loss on disposal of property held for resale	–	–	(42,572)	42,572	–
– Impairment loss recognised in respect of unlisted investment	–	–	(1,112,509)	1,112,509	–
– Reversal of impairment loss previously recognised in respect of unlisted investments	–	–	820,000	(820,000)	–
– Gain on sale of investments in securities, net	–	–	160,492	(160,492)	–
Dividends paid	–	(1,781,000)	–	(1,781,000)	(3,562,000)
At December 31, 2003	890,500	56,591,935	(10,339,228)	6,792,851	53,936,058
Net unrealised gains on revaluation of investments in listed securities – tradable	–	–	672,592	–	672,592
Net unrealised gains on revaluation of investments in listed securities – non-tradable	–	–	3,612,366	–	3,612,366
Unrealised gains on revaluation of unlisted investments	–	–	4,193,114	–	4,193,114
Net gains not recognised in the income statement	–	–	8,478,072	–	8,478,072
Net profit for the year	–	–	–	2,083,392	2,083,392
Transfers to capital reserve:					
– Impairment loss recognised in respect of unlisted investments	–	–	(1,000,000)	1,000,000	–
– Reversal of impairment loss previously recognised in respect of an unlisted investment	–	–	594,895	(594,895)	–
– Gain on sale of investments in securities, net	–	–	2,729,905	(2,729,905)	–
Dividends paid	–	(4,452,500)	–	(2,671,500)	(7,124,000)
At December 31, 2004	**890,500**	**52,139,435**	**463,644**	**3,879,943**	**57,373,522**

CASH FLOW STATEMENT

For the year ended December 31, 2004

	2004	2003
	US$	*US$*
CASH FLOWS FROM OPERATING ACTIVITIES		
Net profit before taxation	**2,083,392**	1,970,731
Adjustments for:		
Impairment loss recognised in respect of unlisted investments	**1,000,000**	1,112,509
Reversal of impairment loss recognised in respect of an unlisted investment	**(594,895)**	(820,000)
(Gain) loss on sale of investments in listed securities	**(2,465,555)**	413,326
Gain on sale of investments in unlisted securities	**(264,350)**	(573,818)
Loss on disposal of a property held for resale	**–**	42,572
Operating cash flows before movements in working capital	**(241,408)**	2,145,320
Decrease in dividend, interest and other receivables and prepayments	**15,711**	782,457
Decrease in creditors and accrued charges	**(493,262)**	(365,728)
Increase (decrease) in amount due to Investment Manager	**15,753**	(1,007)
NET CASH (USED IN) GENERATED FROM OPERATING ACTIVITIES	**(703,206)**	2,561,042
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from disposal of listed securities	**9,802,744**	3,947,170
Proceeds from disposal of unlisted investments	**4,249,350**	3,910,227
Proceeds from disposal of a property held for resale	**–**	424,428
Purchase of listed securities	**(6,964,408)**	(2,282,762)
Purchase of unlisted investments	**–**	(1,800,000)
NET CASH GENERATED FROM INVESTING ACTIVITIES	**7,087,686**	4,199,063
CASH FLOWS FROM FINANCING ACTIVITIES		
Dividends paid	**(7,124,000)**	(3,562,000)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	**(739,520)**	3,198,105
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	**13,777,598**	10,579,493
CASH AND CASH EQUIVALENTS AT END OF THE YEAR		
Representing bank balances	**13,038,078**	13,777,598

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2004

1. GENERAL

The Company is incorporated in the Cayman Islands as an exempted company with limited liability and the Company's shares are listed on The Stock Exchange of Hong Kong Limited.

The Company is an investment holding company.

The financial statements are presented in United States dollars because a significant portion of the Company's investments are made in United States dollars.

2. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention, as modified for revaluation of investments in securities, and have been prepared in accordance with accounting principles generally accepted in Hong Kong. The principal accounting policies adopted are as follows:

Revenue recognition

Interest income is accrued on a time basis by reference to the principal outstanding and at the interest rate applicable.

Dividend income from investment in securities is recognised when the Company's rights to receive payment have been established.

Gains or losses arising on the sale of investment in securities are recognised upon the execution of a legally binding and irrevocable contract of sale.

Investments in securities

Investments in securities are recognised on a trade-date basis and are initially measured at cost.

At subsequent reporting dates, debt securities that the Company intends to hold to maturity (held-to-maturity debt securities) are measured at amortised cost, less any impairment loss recognised to reflect irrecoverable amounts. The annual amortisation of any discount or premium on the acquisition of a held-to-maturity security is aggregated with other investment income receivable over the term of the instrument so that the revenue recognised in each period represents a constant yield on the investment.

All securities other than held-to-maturity debt securities are measured at fair value at the balance sheet date. Unlisted securities which fair value cannot be reasonably estimated are stated at cost, net of any impairment loss.

NOTES TO THE FINANCIAL STATEMENTS *(Cont'd)*

For the year ended December 31, 2004

2. SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

Investments in securities *(Cont'd)*

Where securities are held for trading purposes, both realised and unrealised gains and losses are recognised in the income statement for the period in which they arise. For other securities, unrealised gains or losses are dealt with in the capital reserve until the security is sold or determined to be impaired, at which time the cumulative gain or loss will be included in the income statement for the period.

As required by the Company's Articles of Association, gains and losses on realisation of investment in securities shall not be available for distribution as dividend. Therefore, those gains and losses on investments in securities recognised in the income statement are transferred to the capital reserve in the period in which they arise.

Properties held for resale

Properties held for resale are stated at the lower of cost and net realisable value. Net realisable value represents the estimated selling price less costs to be incurred in marketing and selling.

As required by the Company's Articles of Association, capital gains or losses on realisation of the Company's assets shall not be available for distribution as dividend. Therefore, gains and losses on the properties are first recognised in the income statement and then transferred to the capital reserve in the period in which they arise.

Foreign currency transactions

Transactions in currencies other than United States dollars are translated into United States dollars at the rates ruling on the dates of the transactions. Monetary assets and liabilities denominated in currencies other than United States dollars are re-translated into United States dollars at the rates ruling on the balance sheet date. Profits and losses arising on exchange are dealt with in the income statement.

Taxation

Taxation 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 net profit as reported in the income statement because it excludes items of income and expense that are taxable or deductible in other years, and it further excludes income statement items that are never taxable and deductible.

NOTES TO THE FINANCIAL STATEMENTS *(Cont'd)*

For the year ended December 31, 2004

2. SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

Taxation *(Cont'd)*

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognized for all taxable temporary differences, and deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which deductible temporary difference can be utilized.

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

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

3. INVESTMENT INCOME

	2004	2003
	US$	*US$*
Investment income for the year comprises:		
Dividend income		
– Listed securities	**160,215**	124,536
– Unlisted investments	**1,003,605**	3,230,693
Interest income	**146,884**	157,553
	1,310,704	3,512,782

No segment information is presented as the Company has only one business activity and operates in one geographical location.

4. DIRECTORS' EMOLUMENTS

Except for the Directors' fee payable to the Independent Non-Executive Directors totalling US$29,029 *(2003: US$25,704)* which is within the band of nil to US$128,000, none of the Directors has received any remuneration.

NOTES TO THE FINANCIAL STATEMENTS *(Cont'd)*

For the year ended December 31, 2004

5. OTHER ADMINISTRATIVE EXPENSES

	2004	2003
	US$	*US$*
Other administrative expenses include the following:		
Auditors' remuneration	**53,402**	41,280
Custodian fee	**39,834**	29,288
Investment advisory fee	**60,000**	80,000
Staff costs	**12,844**	–

6. TAXATION

No provision for Hong Kong Profits Tax has been made in the financial statements as the Company has no assessable profits for both years. The tax credit for the year ended December 31, 2003 represented the overprovision of Hong Kong Profits Tax in the prior years.

Taxation for the year can be reconciled to profit before taxation as follows:

	2004	2003
	US$	*US$*
Profit before taxation	**2,083,392**	1,970,731
Tax at Hong Kong Profits Tax rate of 17.5% *(2003: 17.5%)*	**364,594**	344,878
Tax effect of expenses that are not deductible for tax purposes	**200,872**	218,293
Tax effect of tax losses not recognized	**245,747**	133,362
Tax effect of income that is not assessable for tax purposes	**(811,213)**	(696,533)
Overprovision in the prior years	**–**	1,200,000
Taxation for the year	**–**	1,200,000

At December 31, 2004, the Company has unused tax losses of approximately US$2,684,000 *(2003: US$2,503,000)* available for offset against future profits. No deferred tax asset has been recognized in respect of such losses due to the unpredictability of taxable income in future. There were no other significant temporary differences arising during the year or at the balance sheet date.

NOTES TO THE FINANCIAL STATEMENTS *(Cont'd)*

For the year ended December 31, 2004

7. DIVIDENDS

	2004 US$	2003 US$
Final dividend proposed – US$0.30 *(2003: US$0.30)* per share	**2,671,500**	2,671,500
Special final dividend proposed – US$1.20 *(2003: US$0.50)* per share payable from the share premium account	**10,686,000**	4,452,500
	13,357,500	7,124,000

The Company paid the final dividend and special final dividend for 2003 of US$2,671,500 and US$4,452,500 respectively on June 2, 2004.

8. EARNINGS PER SHARE – BASIC

The calculation of basic earnings per share is based on the net profit for the year of US$2,083,392 *(2003: US$3,170,731)* and on the 8,905,000 *(2003: 8,905,000)* ordinary shares in issue during the year.

No diluted earnings per share has been presented as the Company has no potential ordinary shares outstanding during both years.

9. INVESTMENTS IN UNLISTED SECURITIES

The unlisted investments are held in the People's Republic of China (the "PRC"). In the opinion of the directors, as the Company is an investment fund company which acts as a passive investor to the investee companies, it does not exert any significant influence over the financial and operating policy decisions of those investee companies. Therefore, investments in those companies are stated as investments in securities in the financial statements.

Details of unlisted securities are set out on page 16.

NOTES TO THE FINANCIAL STATEMENTS *(Cont'd)*

For the year ended December 31, 2004

10. INVESTMENTS IN LISTED SECURITIES – TRADABLE

	2004	2003
	US$	*US$*
Listed securities, at fair value:		
Shares listed on Hong Kong Stock Exchange	**7,361,506**	4,848,305
Shares listed on Taiwan Stock Exchange	**1,877,126**	1,874,607
Market value at 31st December	**9,238,632**	6,722,912

Details of listed securities are set out on page 11.

11. INVESTMENT IN LISTED SECURITIES – NON-TRADABLE

The amount represents the investment in Semiconductor Manufacturing International Corporation ("SMIC"), which has been reclassified from investments in unlisted securities to investments in listed securities upon the dual listing of SMIC in Hong Kong and the United States in March 2004. The shares of SMIC held by the Company are subject to certain investor regulations and restriction from trade for a lock-up period of 180 days subsequent to its listing (the "Lock-up Period"). For a maximum period of three years from the expiration of the Lock-up Period (the "Post Lock-up Period"), the Company could sell or transfer up to 15% of its holding of pre-listing shares in SMIC at the beginning of every 6 months throughout the Post Lock-up Period.

12. PROPERTY HELD FOR RESALE

The property is located in the PRC and held under long leases. The property is stated at net realisable value at the balance sheet date. It is the intention of the Directors to hold the property for resale. The Company did not receive any rental income from the property held for resale for the year ended December 31, 2003 and 2004.

NOTES TO THE FINANCIAL STATEMENTS *(Cont'd)*

For the year ended December 31, 2004

13. SHARE CAPITAL

	Number of ordinary shares of US$0.1 each	Share capital *US$*
Authorised:		
At December 31, 2003 and December 31, 2004	18,000,000	1,800,000
Issued and fully paid:		
At December 31, 2003 and December 31, 2004	8,905,000	890,500

14. NET ASSET VALUE PER SHARE

The calculation of net asset value per share is based on the net asset value of the Company as at December 31, 2004 of US$57,373,522 *(2003: US$53,936,058)* and on the 8,905,000 *(2003: 8,905,000)* ordinary shares in issue as at December 31, 2004.

15. SUBORDINATION

As at December 31, 2003, the Company together with other shareholders of an investee company, had entered into a subordination agreement in favour of a bank in respect of a term loan facility granted to the subsidiary of this investee company to the extent of US$35,000,000 ("Subordination Agreement"). As at December 31, 2003, the Company did not make any advances to that subsidiary of the investee company. The subsidiary of this investee company was disposed in 2003 and the Subordination Agreement was released on June 30, 2004.

NOTES TO THE FINANCIAL STATEMENTS *(Cont'd)*

For the year ended December 31, 2004

16. RELATED PARTY TRANSACTIONS

During the year, the Company had the following transactions with related parties:

	2004	2003
	US$	*US$*
Investment management and administration fees paid and payable to Shanghai International Asset Management (Hong Kong) Company Limited (the "Investment Manager")	**1,121,335**	1,043,854
Amount due to Investment Manager at balance sheet date	**292,694**	276,941

In accordance with the terms of the investment management agreements and the three supplemental agreements, the management and administration fees are calculated and payable quarterly in advance at 0.5% of the net asset value (calculated before deductions of the fees payable to the Investment Manager, the investment adviser and the custodian for that quarter) of the Company calculated on the last business day of the previous quarter.

Amount due to Investment Manager is unsecured, interest free and repayable on demand.

Certain unlisted investments held by the Company are jointly invested with Ruentex Industries, Ltd. and its associates ("Ruentex Group of companies").

Certain directors of the Company are also directors of the Investment Manager.

Certain directors of the Company are also directors and/or shareholders of Ruentex Group of companies.

17. POST BALANCE SHEET EVENT

On December 20, 2004, the Company entered into a Share Purchase Agreement (the "Agreement") with one of the existing shareholders of Concord Greater China Limited ("CGC") to dispose the Company's entire interest in CGC, i.e. 10.85% at a consideration of US$14,790,000. The agreement is conditional upon payment of the consideration no later than February 8, 2005. The transaction is finally completed on January 25, 2005 with US$14,790,000 duly received on the same day and resulted in a realised gain of US$6,090,000 arising from the disposal.

FINANCIAL SUMMARY

	Year ended December 31,				
	2000	2001	2002	2003	**2004**
	US$'000	*US$'000*	*US$'000*	*US$'000*	***US$'000***
RESULTS					
Income	3,166	7,754	3,660	4,951	**4,635**
Expenses	6,563	8,141	2,035	2,980	**2,552**
Profit (loss) before taxation	(3,397)	(387)	1,625	1,971	**2,083**
Taxation	–	–	–	1,200	**–**
Profit (loss) for the year	(3,397)	(387)	1,625	3,171	**2,083**
Earnings (loss) per share	(37.8)¢	(4.3)¢	18.2¢	35.6¢	**23.4¢**

	At December 31,				
	2000	2001	2002	2003	**2004**
	US$'000	*US$'000*	*US$'000*	*US$'000*	***US$'000***
ASSETS AND LIABILITIES					
Investment in securities	59,282	41,986	41,743	39,785	**43,501**
Others	4,124	18,820	10,636	14,151	**13,873**
Net assets	63,406	60,806	52,379	53,936	**57,374**
Net asset value per share	US$7.12	US$6.83	US$5.88	US$6.06	**US$6.44**