MARKET REVIEW

China Economy

China's major economic indicators are set forth below:

Growth (year-on-year per cent)	2004	1H 2005	2005
Gross domestic product ("GDP")	10.1	9.5	9.9
Value added industrial output	16.7	16.4	16.5
Retail sales	13.3	13.2	12.9
Consumer price index ("CPI")	3.9	2.3	1.8
Fixed asset investments ("FAI")	26.6	27.1	27.2
Actual foreign direct investments	13.3	-3.2	-0.5
Exports	35.4	32.7	28.4
Imports	36.0	14.0	17.6
Trade surplus *(US$ billion)*	32.0	39.6	101.8
Foreign exchange reserve *(US$ billion)*	609.9	711.0	818.9

Source: Published information

China's economy slowed only marginally in 2005, registering a real GDP growth of 9.9 per cent, down from 10.1 per cent in 2004. Nominal GDP jumped 14 per cent with GDP deflator coming in at around 3.8 per cent. In US dollar terms, China's economy has expanded to US$2.26 trillion (RMB18.2 trillion). The National Bureau of Statistics reiterated its concern that overcapacity and over-investment remain the biggest threats to China's economy. FAI is still considered excessive with limiting growth efficiency. Hence, the Bureau recommended to continue the credit tightening policy to deflate overheated and excessive investments, so as to better allocate resources for the overall economy.

FAI registered an increase of 27.2 per cent in 2005. Given 2006 is the first year of China's Eleventh Five-Year plan and the government's announced plans to invest heavily in infrastructure projects, it is expected China's economy will resume its fast pace again due partly to the massive public spending. There is however, concern on diminishing returns from industries as a result of over-investment. Despite increasing overcapacity, industrial profits rose 22.6 per cent year-on-year in 2005, albeit markedly lower from the 42.7 per cent and 38.1 per cent level of 2003 and 2004 respectively. Growth notwithstanding, it is anticipated that industrial profits will continue to be subjected to erosion due to overcapacity and limited pricing power. Consequently, China cannot continue to rely on FAI to power economic growth, but rather to promote consumption and other structural reform.

CPI rose 1.8 per cent in 2005 which was probably largely attributable to an easing in food prices, which accounts for over 30 per cent of the index basket. Considering the anticipated revision of the CPI basket and deregulation of energy prices, inflation remains benign. On the other hand, the manufacturing sector has already been experiencing margin squeeze, hence the swing factor remains only in the primary sector, health care, education and food prices which are on an upward momentum.

China Economy *(Cont'd)*

Despite a slowdown in exports growth and accelerating demand for imports, for the full year 2005, China's exports jumped 28.4 per cent to US$762 billion and imports rose 17.6 per cent to US$660 billion, boosting the annual trade balance by more than triple to US$101.8 billion.

More significantly, export of technology related products exceeded US$100 billion for the first time according to the Ministry of Commerce. In 2005, the proportion of technology related products increased to 13.7 per cent of China's total export volume, almost double from that of 7.9 per cent in 2001. In dollar terms, China's high-tech industry and technology related products as a whole in 2005 were US$412 billion, up 420 per cent year-on-year and accounted for 5.2 per cent of the country's GDP. The Ministry of Commerce estimated that there were some 300 high-tech firms in China with an annual export volume of over US$100 million in 2005, and 50 firms with an annual export volume of over US$1 billion.

Hong Kong Economy

Hong Kong's economy continued to expand rapidly in 2005. Following an increase of 8.6 per cent in 2004, Hong Kong's GDP registered a 7.3 per cent increase for the year. Growth in private consumption for the third quarter bounced back to 4.6 per cent, after retreating to 2.7 per cent in the previous quarter, the slowest since the third quarter in 2003. Such rebound in consumer demand was stronger than anticipated, led by a 4.7 per cent year-on-year jump in consumption that was the biggest since the second quarter in 2004.

Merchandise exports performed well in the third quarter, which rose 12.8 per cent. Net exports of trade-related services on average added another 1.5 percentage points to overall GDP growth. With China's trade volume expected to continue its growth pace in the coming few years, as a free port adjacent to mainland China, and with such favorable policy as the Closer Economic Partnership Arrangement (CEPA) which allows tariff exemption for designated categories of goods and services with a minimum percentage of origination from Hong Kong, its simple and low tax rate, efficient transportation and communication networks, Hong Kong's trade will continue to benefit from such attributes. In particular, Hong Kong has been a beneficiary of the booming electronics manufacturing sector in China. Due to its efficient logistics service, businesses related to delicate and valuable items are willing to pay a premium to take advantage of Hong Kong's services. Consequently, Hong Kong will remain as an important hub to handle China's imports of electronics components and other products as well.

On the property front, residential property prices have been consolidating since mid-2005 as demand subsided on the back of concerns over sustained interest rate hike. The market anticipates property prices should remain sluggish in the next few months, but outlook should be more positive as demand and supply turns more favorable on the back of interest rate peaking. With interest rate hikes coming to an end, substantial demand pent up since the middle of 2005 should be unleashed. Commercial property prices, on the other hand, have grown substantially, and more pronounced for those in the central business districts with prime office buildings leased at escalated rents and demand still outstripped supply.

LISTED INVESTMENTS PORTFOLIO

As at December 31, 2005

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$
AU Optronics Corporation	Electronics	49,000	0.0008	406,127	384,841	1.07	10,303
Cheung Kong (Holdings) Limited	Investment holding	85,000	0.0037	909,040	872,118	2.43	20,178
China Life Insurance Company Limited	Life insurance	400,000	0.0054	307,974	353,400	0.98	–
China Telecom Communication Ltd.	Wireline telecommunication services	1,100,000	0.0079	419,745	404,347	1.12	–
Guangshen Railway Co. Ltd.	Railway passenger and freight transportation	1,662,000	0.1161	547,627	498,391	1.39	–
Harbin Power Equipment Co. Ltd.	Manufacture of power equipment	700,000	0.1492	372,845	469,481	1.31	–
Hutchison Whampoa Ltd.	Diversified corporation	95,000	0.0022	944,254	904,879	2.52	20,247
HSBC Holdings Plc	Banking and related financial services	47,200	0.0004	766,916	757,927	2.11	6,608
PetroChina Co. Ltd.	Oil and petroleum products	700,000	0.0033	442,467	573,308	1.60	16,875
Semiconductor Manufacturing International Corporation ("SMIC")*	Semiconductors foundry	36,737,540	0.2008	4,098,406	4,975,258	13.85	–
Total				9,215,401	10,193,950	28.38	74,211
Other listed securities				1,451,331	1,230,221	3.42	95,508
Total investment in listed securities				10,666,732	11,424,171	31.80	169,719

* As at December 31, 2005, 17,937,297 shares held in SMIC were not freely tradable. Details of this investment are set out in note 15 to the financial statements.

LISTED INVESTMENTS PORTFOLIO

As at December 31, 2004

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$
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	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")*	Semiconductors foundry	42,237,540	0.2316	4,711,981	9,181,483	16.00	–
TPV Technology Ltd.	Design manufacture and sale 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	65,010
Other listed securities				2,667,994	2,319,656	4.05	95,205
Total investment in listed securities				13,082,825	16,659,341	29.04	160,215

* 42,237,540 shares in SMIC were investment made in 2001 as unlisted securities and reclassified as listed securities at the time it became listed in 2004.

LISTED INVESTMENTS REVIEW

In 2005, the Hang Seng Index ("HSI") traded within a narrow range. During the year the HSI fell to a year low of 13,320 on January 24, 2005 and came back later in the second half by reaching the year high of 15,508 on August 16, 2005. However, the market went into correction later and closed at 14,876, up 4.5 per cent year-on-year. The Hang Seng China Enterprise Index ("HSCEI" or the "H-shares") rose 12.4 per cent year-on-year.

New listings performed well on the whole in 2005. Taking advantage of the improvement in market sentiment, there were 67 new companies approved for listing on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), of which 57 were listed on the main board. Total funds raised were HK$188.8 billion or approximately US$24.36 billion. The China Construction Bank, Shenhua Energy, Link REIT and Bank of Communications were the four mega listings with a combined fund raised from the market of HK$133.7 billion or approximately US$17.25 billion. Share prices of all these major Chinese companies all performed well since their listings, and as at year end of 2005, they registered a gain of 12.8 per cent, 12 per cent, 39.8 per cent and 42 per cent respectively.

The HSI dropped 5 per cent and closed at 13,516 in the first quarter from the beginning of the year. Properties and banking sectors were the biggest hit, which were down 9.9 per cent and 6.2 per cent respectively. H-shares were the winners, led by a rise in oil and petrochemical stocks on the back of worldwide oil price increase. The market spiked in both May and June, and continued into mid-August. The best performing sectors were telecommunications and red chips companies incorporated in Hong Kong with underlying assets in China, which gained 9 per cent and 7.9 per cent respectively. The Hang Seng China Enterprise Index, however, posted only a gain of 1.4 per cent in the second quarter of 2005 as market became concerned at the likelihood of an earnings-peak among various industrial-related companies in China.

In October, a major market correction took place during which the HSI fell more than 1,000 points to 14,215. The market started to rebound in November but such momentum was unable to extend into December. However, the HSCEI continued to rally after it broke through the 5,000 level on the back of strong Chinese economic growth and market speculation of A-share reforms and RMB revaluation.

Taking into consideration energy prices, interest rate movements and plausible impacts from geopolitics on the global economy, the Company will remain vigilant on the market in the coming year. During the year under review, the Company's portfolio of listed securities recorded a drop of 11.5 per cent attributable mainly to SMIC's sluggish share price.

Listed securities – Non-tradable

Semiconductor Manufacturing International Corporation ("SMIC")

SMIC's principal business is in the manufacturing of semiconductor chips, which includes wafer fab, process technology, IC design service, etc.

The Company invested approximately US$6 million in SMIC's unlisted shares since 2001 and the investment was converted into 54 million shares upon SMIC's listing in March 2004. As of December 31, 2005, 36,737,540 shares in SMIC were held by the Company, of which 17,937,297 shares were subject to lock-up, with portion released bi-annually to become freely tradable. As of December 31, 2005, the Company registered a net gain of approximately US$4 million or 66.22% in respect of partial sale and continuous holding of this investment.

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 by SMIC. 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.

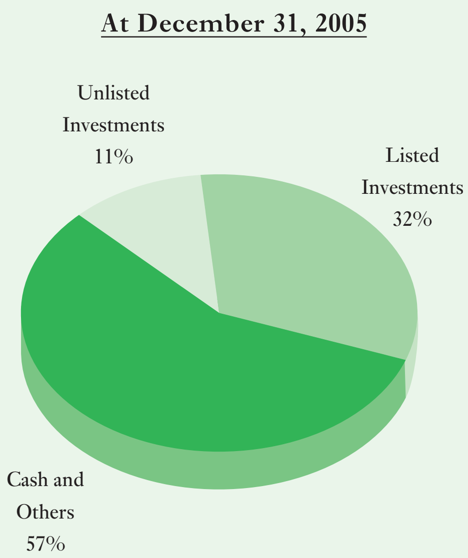
SMIC and United Test and Assembly Center Ltd, a Singapore listed company, entered into joint venture arrangements in May relating to the provision of assembly and testing services in Chengdu, China, primarily focusing on memory and logic chips. SMIC would put up a cash investment of US$51 million for 51 per cent equity interest of the joint venture company. The assembly and testing facility is located in Chengdu's Special Export Manufacturing Zone. Mass production commenced in the fourth quarter of 2005

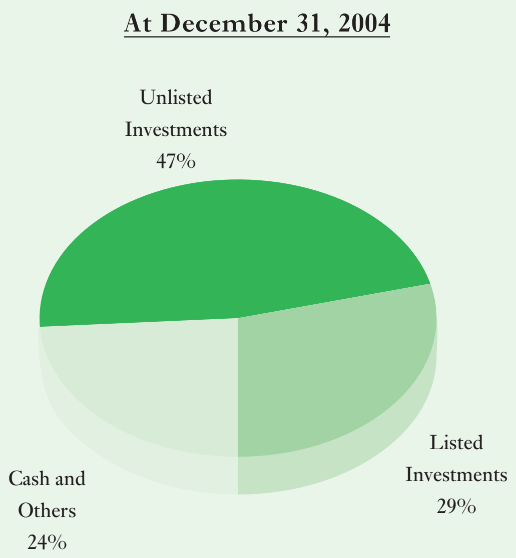
SMIC passed an audit conducted by the British Standard Institute ("BSI") with a zero-defect performance and received the BS7799 certificate for information security management systems on July 29, 2005. Formulated by BSI, the BS7799 standard is recognized internationally as a standard for information security management systems.

SMIC has entered into a long-term loan facility agreement with an aggregate principal amount not exceeding € 85 million with ABN AMRO Bank N.V. and Commerz Bank (Nederland) N.V. as lenders. Funds drawn from the facility are for purchase of lithography equipment to support the expansion of its manufacturing facilities. Atradius Dutch State Business N.V. of Amsterdam will act as guarantor for SMIC's loan obligations prescribed in the facility agreement.

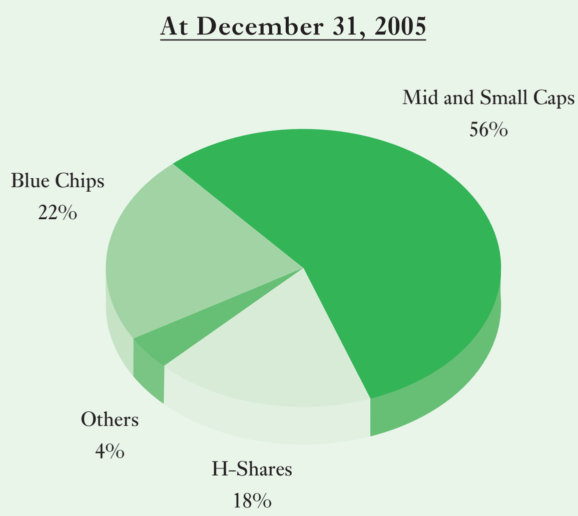
SMIC's research and development team has made progress in the execution of 90 nanometer (nm) technology and SMIC was to conduct trial production before the end of the fourth quarter. SMIC has also entered into an agreement with a customer to co-develop its 65 nm process to deliver engineering samples by the end of 2006.

Investment Allocation





Listed Securities Portfolio Allocation



UNLISTED INVESTMENTS

As at December 31, 2005

Invested projects	Nature of Business	% of equity interest	Amount invested at cost US$	Impairment loss US$	Fair value US$	% of net asset value	Dividend income US$	Accumulated dividend income US$
Shanghai Lian Ji Synthetic Fiber Co., Ltd.	Chemical Fibers	11.10	6,121,600	(6,121,600)	–	–	–	2,080,520
Shanghai Well Bright Food Co. Ltd.	Frozen Prepared Food	27.83	3,960,000	–	3,960,000	11.02	–	403,249
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)	–	–	–	–
			12,703,600	(8,743,600)	3,960,000	11.02	–	2,483,769

Note:

Investments in Suzhou Taihai Automobile Ferry Wharf Co., Ltd., Concord Greater China Limited and Zhejiang Huguang Heat & Power Co., Ltd. were disposed of during the year.

UNLISTED INVESTMENTS

As at December 31, 2004

Invested projects	Nature of Business	% of equity interest	Amount invested at cost US$	(Impairment loss) Appreciation US$	Fair value US$	% of net asset value	Dividend income US$	Accumulated dividend income US$
Shanghai Lian Ji Synthetic Fiber Co., Ltd.	Chemical Fibers	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.	Heat and 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 in the year 2004.

(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 of in the year 2004.

UNLISTED INVESTMENTS REVIEW

During the year under review, the Company divested three unlisted investments and recorded a realized gain of US$7,499,318. The Company also received dividends of US$566,277 mainly from Suzhou Taihai Automobile Ferry and Wharf Co., Ltd. As at December 31, 2005, the Company's unlisted investments portfolio comprised of only two active investments, with a total fair value of US$3,960,000.

China continued to achieve robust economic growth with mild inflation in 2005, thanks to the government's austerity measures to curb duplicate and excessive investments in certain sectors. If successfully implemented, these measures will provide a more balanced growth for China's economy across the spectrum and minimize unwarranted volatility from overheating in the long run.

In earlier 2005, the Chinese government circulated a directive to improve foreign exchange administration relating to mergers and acquisitions of Chinese companies by foreign investors. Although the main objective of the circular is to stem the outflow of Chinese capital to outside jurisdictions via mergers and acquisitions, which process would have the Chinese assets held by foreign incorporated entities, the circular also intends to prevent the possible loss of taxation from state-owned assets held by foreign incorporated companies through mergers and acquisitions conducted outside of China. The circular has created a serious issue for venture capital and private equity investors since back-door listings in overseas jurisdiction of small and medium-sized enterprises is one of the few available exit alternatives for venture capital and equity investors investing in Chinese companies.

During the year under review, the Company continued to adopt prudent and thorough investment approach to explore new investment opportunities. The Company was presented with scores of investment opportunities, covering industries in internet, telecommunications, electronics and pharmaceuticals. Among these deal flows, further works and research in a host of selected companies had been conducted, and upon more in-depth due diligence conducted on those prospects, the Company either found further pursuit in some of those opportunities would be futile, or in instances where the company wanted to pursue further, was stopped short by the fact those prospects preferred or were in discussion with larger private equity investors which were able to satisfy the fund raising objectives without involving too many investors.

On the other hand, the Company continued to make progress and successfully divested three unlisted investments during the year.

Highlights of Progress

- **Concord Greater China Limited ("CGC"):** The Company received US$14,790,000 from the sale of its beneficial interests in CGC. The divestment represented a realized gain of US$6,090,000, which was recorded as an unrealized gain at end of December 2004. The share sale was completed on January 25, 2005.

- **Suzhou Taihai Automobile Ferry and Wharf Co., Ltd. ("Taihai Ferry"):** In April, the Company entered into a sale and purchase agreement with a third party purchaser to dispose of its entire stake in Taihai Ferry for a total consideration of US$1,715,700 and registered a realized gain of approximately US$596,000.

Highlights of Progress *(Cont'd)*

- **Zhejiang Huguang Heat and Power Co., Ltd. ("Zhejiang Huguang"):** The Company entered into a sale and purchase agreement to dispose of its entire equity stake in Zhejiang Huguang to a third party purchaser for a consideration of US$3,520,000 (inclusive of the past three years' dividend collected in RMB but yet to be repatriated in hard currency). The consideration was received in full in July, and the transfer documents have been submitted to relevant government authorities for approval, upon receipt of which, the transaction would have been officially completed. The Company recorded a realized gain of approximately US$813,000 on disposal of this investment.

- **Shanghai Lian Ji Synthetic Fiber Co., Ltd. ("Lian Ji"):** In view of Lian Ji's disappointing performance and perennial operating losses, the Company resolved to make a full provision on this investment at end of 2005.

- **GSMC International Limited ("GSMCI"):** As an ongoing effort to recoup investment in GSMCI, which the Company exited in 2002, the Company has recovered 75 per cent of the investment principal so far with the outstanding balance of US$125,000 expected to be received at end of March 2006. Apart from recovering investment principal, the Company has and continues to receive interest at a rate of 8 per cent per annum on outstanding balance agreed and honored by GSMCI. .

DIVESTMENTS

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 per cent 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.

The Company entered into a sale and purchase agreement in December 2004 with one of the shareholders of CGC to dispose of the Company's entire stake in CGC. The consideration was US$14,790,000 and completion took place on January 25, 2005. An unrealized gain of US$6,090,000 had already been recorded in 2004.

Taking into account previous dividends already received from CGC, the Company's exit from this investment represented an overall return of US$12,165,000 (inclusive of prior dividends received) or a total rate of return of 139.83 per cent.

DIVESTMENTS *(Cont'd)*

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

Taihai Ferry was established in May 1995 to construct and operate a pier and ancillary 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 per cent equity interest in this project. As a result of subsequent capital reduction and share transfer, the Company's investment and shareholding in Taihai Ferry was reduced to US$1,120,000 and 31 per cent respectively.

In 2003, China's Transportation Bureau issued a decree requiring all vehicular ferries to comply with certain safety requirements over growing concern of accidents occurred during water transport. Taihai Ferry was confronted with either to retrofit all ferries or to build a new pier upstream to cut down on the sailing time. The other two shareholders of Taihai Ferry opted for the construction of a new pier upstream and argued the move was a government policy they must comply with. On the other hand, the Company was opposed to the idea as that exercise would force Taihai Ferry to leverage bank financing which amount would be greater than Taihai's existing capitalization. The Company had since been at odds on this issue with the other two shareholders who continued to push for the resolution to build a new pier.

Realizing the impasse was problematic and not likely to be resolved, and although legal recourse was always an alternative as a last resort, the Company maintained close communication with the other two shareholders with the singular objective to divest the Company's interest rather than to prolong the disagreement. The Company identified a third party interested to acquire its equity interests in Taihai Ferry. Through relentless negotiating efforts, the Company entered into a sale and purchase agreement with the purchaser to dispose its entire stake in Taihai Ferry for a consideration of US$1,715,700 and recorded a realized gain of approximately US$596,000. The relevant authorities approved the transaction in April 2005, and the Company received payment in full for its share sale in the same month. In addition to the share sale, the Company also received US$566,277 for its 2004 dividend entitlement from Taihai Ferry remitted in hard currency in June 2005.

Upon completion, the Company's exit from this investment represented an overall return of US$3,520,000 (inclusive of prior dividends received) or a total rate of return of 132 per cent.

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 per cent equity in the company. In accordance with terms in the contract, the Company would be 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 suspended the fixed annual return to the Company as of 2001. The Company had been working since to find an alternative to resolve the impasse.

DIVESTMENTS *(Cont'd)*

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

In 2004, the Company identified and entered into a conditional sale and purchase agreement with a third party purchaser to dispose of its entire beneficial interests in Zhejiang Huguang. The Company received US$1,860,000 and US$1,660,000 in June and July 2005 respectively for consideration of the sale. Share transfer documents were submitted to relevant authorities in China for official approval. The Company recorded a realized gain of US$813,000 on disposal of this investment. Upon completion, the Company's exit from this investment represented an overall return of US$3,123,000 (inclusive of prior dividends received) or a total rate of return of 105 per cent.

CURRENT INVESTED PORTFOLIO

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 a 15 per cent equity interest in Lian Ji. Subsequent to the Company's 3 per cent share sale to the other two shareholders in 2002, 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 all of 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 per cent of the enlarged share capital.

During 2005, oil price continued to escalate in the midst of geopolitical uncertainties in the Middle East and vigorous global demand. Oil price once rose above US$70 a barrel and only retreated slightly at the year-end but stayed above US$60 a barrel. New York WTI and London Brent oil futures were up 40 per cent and 46 per cent year-on-year respectively. High oil price resulted in hiking costs of raw materials like PTA and MEG. As increase of raw materials price far exceeded the price of end products, Lian Ji's profitability was substantially eroded.

Given the continuing operating loss and adverse market conditions, 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. Besides, Lian Ji shifted its product mix to produce higher margin polyester to cater for the rise in seasonal demand at the expense of lower production utilization. Lian Ji also adjusted its sales strategy via market and product diversification rather than setting sales targets based on production capacity. Nevertheless, Lian Ji still reported a net loss of approximately RMB160,000,000 for the year 2005.

Against the backdrop of high material costs, threat of textile quotas and further revaluation of the RMB, chances for Lian Ji to retreat from loss and prospect of turning around in the near future seemed unlikely. Accordingly, the Company has made an additional impairment loss of US$5,121,600 on its investment in Lian Ji in 2005. Along with the US$1,000,000 impairment loss already made in 2004, the Company's investment in Lian Ji has been fully provided.

CURRENT INVESTED PORTFOLIO *(Cont'd)*

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

Well Bright produces and distributes frozen prepared foods 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 per cent equity interest in Well Bright. The remaining 70 per cent equity was beneficially owned by Amazing Results Corporation ("Amazing Results"). In 2003, Well Bright declared its inaugural dividend of which Amazing Results chose to plough back its share of dividend to reinvest in Well Bright. Consequently, the Company's equity interest was proportionately diluted to 27.38 per cent.

During the year, the food coloring additive Sudan I incident and outbreak of bird flu caused a material impact on Well Bright's business. KFC, Well Bright's major client, suspended sales with the news coverage on the discovery of carcinogenic effect of Sudan I, a food coloring additive, found in a number of food items including those being sold in fast food chains in China. Consequently, sales of Well Bright's chicken products were negatively impacted. Poultry products also faced a tough challenge against worldwide concern of a plausible pandemic from bird flu, of which China had reported several isolated instances of suspected bird flu occurrence. Although sales of poultry products rose during the fourth quarter, it was more of a seasonal cycle rather than an improvement in fundamentals.

In order to offset and minimize the adverse effect, Well Bright increased its product diversification by concentrating its promotion on sales of beef and mutton. The high profit margin of mutton sales inevitably draws competition with competitors setting up slaughter houses in Inner Mongolia where lamb supply is getting tight. Well Bright's Hailaer subsidiary is unable to cope with increasing demand and thus initiated efforts to source from other lamb suppliers to ensure the timely delivery of this year's mutton exports. Meanwhile, Well Bright's main growth driver came from mutton products which exports accounted for 2/3 of total mutton sales. Well Bright also exported frozen mutton products on a trial basis. During 2005, mutton sales topped US$12,000,000, more than doubled the US$5,500,000 sales made in 2004.

To counter increasing squeeze on gross margin, Well Bright pushed for volume with lower prices. Well Bright also continued its product development and product diversification in mutton and beef, in order to boost revenue growth and improve profitability. Although Well Bright's sales jumped 7% to RMB382,505,663, its overall performance was much poorer than the previous year and recorded a loss of RMB942,000 for the full year 2005.