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 addresses of the registered office and principal place of business of the Company are disclosed in the introduction to the annual report.

The Company is an investment holding company.

The financial statements are presented in United States dollars which is the functional currency of the Company.

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS/ CHANGES IN ACCOUNTING POLICIES

In the current year, the Company has applied, for the first time, a number of new Hong Kong Financial Reporting Standards ("HKFRSs"), Hong Kong Accounting Standards ("HKASs") and Interpretations (hereinafter collectively referred to as "new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants that are effective for accounting periods beginning on or after January 1, 2005. The adoption of the new HKFRSs has had no material effect on how the results for the current or prior accounting years are prepared and presented. Accordingly, no prior year adjustment has been required.

Financial instruments

In the current year, the Company has applied HKAS 32 Financial Instruments: Disclosure and Presentation ("HKAS 32") and HKAS 39 Financial Instruments: Recognition and Measurement ("HKAS 39"). HKAS 32 requires retrospective application. The application of HKAS 32 has had no material impact on how financial instruments of the Company are presented for current and prior accounting periods. HKAS 39 which is effective for annual periods beginning on or after January 1, 2005, generally does not permit the recognition, de-recognition or measurement of financial assets and liabilities on a retrospective basis. The principal effects resulting from the implementation of HKAS 39 are summarized below.

Classification and measurement of financial assets and financial liabilities

The Company has applied the relevant transitional provisions of HKAS 39 with respect to classification and measurement of financial assets and financial liabilities that are within the scope of HKAS 39.

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS/ CHANGES IN ACCOUNTING POLICIES *(Cont'd)*

Classification and measurement of financial assets and financial liabilities *(Cont'd)*

Up to December 31, 2004, the Company classified and measured its investment in equity securities in accordance with the alternative treatment of Statement of Standard Accounting Practice 24 Accounting for investments in securities ("SSAP 24"). Under SSAP 24, the Company's investments in equity securities are classified as "non-trading securities" and are measured at fair value. Unlisted securities which fair value cannot be reliably measured are stated at cost, less any impairment loss. Unrealized gains or losses of "non-trading securities" are reported in equity until the securities are sold or determined to be impaired, at which time the cumulative gain or loss previously recognized in equity is included in the net profit or loss for that period. From January 1, 2005 onwards, the Company classifies and measures its investments in equity securities in accordance with HKAS 39. Under HKAS 39, the Company classified its investments in equity securities as "available-for-sale financial assets". "Available-for-sale financial assets" are carried at fair value with changes in fair values recognized in equity, except for certain investments in unlisted securities which are carried at cost less impairment when there are absence of quoted market prices in an active market and whose fair value cannot be reliably measured. The adoption of the transitional provisions in HKAS 39 has resulted in reclassification of all the Company's investment in equity securities from "non-trading securities" to "available-for-sale financial assets", and had no material effect on how the Company's results for the current or prior accounting periods are prepared and presented.

The Company has not early applied the following new standards and interpretations that have been issued but are not yet effective. The directors of the Company anticipate that the application of these Standards or Interpretations will have no material impact on the financial statements of the Company.

HKAS 1 (Amendment)	Capital disclosures[1]
HKAS 19 (Amendment)	Actuarial gains and losses, group plans and disclosures[2]
HKAS 21 (Amendment)	Net investment in a foreign operation[2]
HKAS 39 (Amendment)	Cash flow hedge accounting of forecast intragroup transactions2
HKAS 39 (Amendment)	The fair value option[2]
HKAS 39 & HKFRS 4 (Amendments)	Financial guarantee contracts[2]
HKFRS 6	Exploration for and evaluation of mineral resources[2]
HKFRS 7	Financial instruments: Disclosures[1]
HK(IFRIC) - INT 4	Determining whether an arrangement contains a lease[2]
HK(IFRIC) - INT 5	Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds[2]
HK(IFRIC) - INT 6	Liabilities arising from participating in a specific market-waste electrical and electronic equipment[3]
HK(IFRIC) - INT 7	Applying the restatement approach under HKAS 29 Financial Reporting in Hyperinflationary Economies[4]

1 Effective for annual periods beginning on or after January 1, 2007.
2 Effective for annual periods beginning on or after January 1, 2006.
3 Effective for annual periods beginning on or after December 1, 2005.
4 Effective for annual periods beginning on or after March 1, 2006.

3. SIGNIFICANT ACCOUNTING POLICIES

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

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

Revenue recognition

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

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

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

Investment property

On initial recognition, investment property is measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment property is measured using the fair value model. Gains or losses arising from changes in the fair value of investment property are included in profit or loss for the period in which they arise.

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

Foreign currencies

In preparing the financial statements, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at the rates of exchanges prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

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

Foreign currencies *(Cont'd)*

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognized in profit or loss in the period in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognized directly in equity, in which cases, the exchange differences are also recognized directly in equity.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognized on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax base 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 differences can be utilized. Such assets and liabilities are not recognized if the temporary difference arises or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

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 realized. Deferred tax is charged or credited to profit or loss, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Financial instruments

Financial assets and financial liabilities are recognized on the balance sheet when the Company becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in profit or loss.

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

Financial assets

The Company's financial assets are mainly classified into available-for-sale financial assets and loans and receivables. All regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace. The accounting policies adopted in respect of each category of financial assets are set out below.

Available-for-sale financial assets

(i) Investments in listed securities

The Company's investments in listed securities are measured at fair value. Changes in fair value are recognized in equity, until the financial asset is disposed of or is determined to be impaired, at which time, the cumulative gain or loss previously recognized in equity is removed from equity and recognized in profit or loss. Any impairment losses on available-for-sale financial assets are recognized in profit or loss. Impairment losses on available-for-sale equity investments will not reverse in profit or loss in subsequent periods. For available-for-sale debt investments (if any), impairment losses are subsequently reversed to equity if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

(ii) Investments in unlisted securities

Investment in unlisted securities are available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured. They are measured at cost less any impairment losses at each balance sheet date subsequent to initial recognition. An impairment loss is recognized in profit or loss when there is objective evidence that the asset is impaired. The amount of the impairment loss is measured as the difference between the carrying amount of the asset and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses will not reverse in subsequent periods.

As required by the Company's Articles of Association, gains and losses on realization and revaluation of investment in securities and assets shall not be available for distribution as dividend. Therefore, those gains and losses of sale and impairment losses on investments in securities and assets recognized in profit or loss are transferred to the capital reserve in the period in which they arise.

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

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivable (including dividend, interest and other receivables and bank balances) are carried at amortized cost using the effective interest method, less any impairment losses. An impairment loss is recognized in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognized, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

Financial liabilities and equity

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

An equity instrument is any contract that evidences a residual interest in the assets of the Company after deducting all of its liabilities. Under HKAS 39, financial liabilities are generally classified as financial liabilities at fair value through profit or loss and other financial liabilities. The Company's financial liability is mainly classified as other financial liability. The accounting policies adopted in respect of financial liabilities and equity instruments are set out below.

Other financial liability

Other financial liability including amount due to Investment Manager is subsequently measured at amortized cost, using the effective interest rate method.

Equity instruments

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

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The directors of the Company make estimates and assumptions concerning the future. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities are discussed below.

Estimate of impairment in investment in unlisted securities

In the absence of information of an active market for unlisted securities, the directors of the Company determine the amount within a range of reasonable impairment estimates by considering information from a variety of sources including:

(i) Bi-annual review on the operating results and net assets value of an invested entity on balance sheet date performed by independent auditors;

(ii) Historical operating performance and dividend distribution of the invested entity; and

(iii) Gearing position and liquidity to meet working capital requirement of an invested entity.

An impairment loss on value of investment in unlisted securities is recognized for the amount by which the carrying amount exceeds the present value of estimated future cash flows discounted at the current market rate of return for similar finance asset.

5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Company's major financial instruments include investments in listed and unlisted securities, dividend, interest and other receivables, bank balances and amount due to Investment Manager. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk

(i) Currency risk

Certain investments in equity securities and loans and other receivables of the Company are denominated in foreign currencies. The Company currently does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arises.

5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Cont'd)*

Market risk *(Cont'd)*

(ii) Interest rate risk

The Company is exposed to cash flow interest rate risk through the impact of rate changes on interest bearing financial assets which are mainly short term bank deposits. Since the bank deposits are all short term in nature, any future variations in interest rates will not have a significant impact on the results of the Company.

(iii) Price risk

The Company's investments in listed securities are measured at fair value at each balance sheet date. Therefore, the Company is exposed to equity security price risk. The management manages this exposure by maintaining a portfolio of investments with different risk profiles.

Credit risk

The Company's principal financial assets are dividend, interest and other receivables and bank balances.

The Company's maximum exposure to credit risk in the event of the counterparties failure to perform their obligations at the balance sheet date in relation to each class of recognized financial assets is the carrying amount of those assets are stated in the balance sheet. The Company reviews the recoverable amount of each individual receivable at each balance sheet date to ensure that adequate impairment losses, if necessary, are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Company's credit risk is significantly reduced.

Although the bank balances are concentrated on certain counterparties, the credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit rating agencies.

6. INVESTMENT INCOME

	2005	2004
	US$	US$
Investment income comprises:		
Dividend income		
– Listed securities	**169,719**	160,215
– Unlisted securities	**566,277**	1,003,605
Interest income	**460,603**	146,884
	1,196,599	1,310,704

7. BUSINESS AND GEOGRAPHICAL SEGMENTS

No segment information is presented as the Company has only one business activity, namely investment holding and operates in the Greater China only.

8. IMPAIRMENT LOSS RECOGNIZED IN RESPECT OF AN INVESTMENT IN UNLISTED SECURITIES

Impairment loss was recognized based on the estimated recoverable amount of an investment in unlisted securities which has been making continuous loss.

9. DIRECTORS' EMOLUMENTS

Except for the directors' fee payable to the independent non-executive directors totalling US$38,646 *(2004: US$29,029)* which is within the band of nil to US$128,000, none of the other directors has received any emoluments for both years.

The directors' fee payable to the independent non-executive directors were as follows:

	2005	2004
	US$	US$
Ong, Ka Thai	**12,882**	12,842
Yick, Wing Fat Simon	**12,882**	12,842
Hua, Min	**12,882**	3,345
	38,646	29,029

10. OTHER ADMINISTRATIVE EXPENSES

	2005	2004
	US$	US$
Other administrative expenses include the following:		
Auditors' remuneration	**56,818**	53,402
Custodian fee	**47,903**	39,834
Investment advisory fee	**10,000**	60,000
Staff costs	**52,423**	12,844

11. 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.

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

	2005		2004	
	US$	**%**	US$	%
Profit for the year	**1,618,427**		2,083,392	
Tax at Hong Kong Profits Tax rate	**283,225**	**17.5**	364,594	17.5
Tax effect of expenses that are not deductible for tax purposes	**1,283,321**	**79.3**	200,872	9.6
Tax effect of tax losses not recognized	**–**	**–**	245,747	11.8
Tax effect of income that is not assessable for tax purposes	**(1,566,546)**	**(96.8)**	(811,213)	(38.9)
Taxation for the year	**–**	**–**	–	–

At December 31, 2005, the Company has unused tax losses of approximately US$2,740,000 *(2004: US$2,740,000)* 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. The losses may be carried forward indefinitely. There were no other significant temporary differences arising during the year or at the balance sheet date.

12. DIVIDENDS

	2005	2004
	US$	US$
Final dividend proposed – nil *(2004: US$0.30 per share)*	**–**	2,671,500
Special final dividend proposed – US$1.20 *(2004: US$1.20)* per share payable from the share premium account	**10,686,000**	10,686,000
	10,686,000	13,357,500

The Company paid the final dividend and special final dividend for 2004 of US$2,671,500 and US$10,686,000 respectively on June 10, 2005. A final dividend of US$400 which was declared to pay to a shareholder for 2002 was waived since the period for shareholders to claim the dividend distribution has lapsed.

13. EARNINGS PER SHARE – BASIC

The calculation of basic earnings per share is based on profit for the year of US$1,618,427 *(2004: US$2,083,392)* and on the number of 8,905,000 *(2004: 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.

14. INVESTMENTS IN UNLISTED SECURITIES

	2005	2004
	US$	US$
Investment cost	**12,703,600**	23,569,981
Add: Appreciation in value	**–**	6,893,114
Less: Accumulated impairment	**(8,743,600)**	(3,622,000)
	3,960,000	26,841,095

At December 31, 2005, the unlisted investments are investments in unlisted equity securities issued by private entities incorporated in the People's Republic of China (the "PRC"). They are measured at cost less impairment at each balance sheet date because the range of reasonable fair value estimates is so significant that the directors of the Company are of the opinion that their fair values cannot be measured reliably.

At the balance sheet date, the Company holds more than 20% of equity interest in certain unlisted investee companies. 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 nor participate in the financial and operating policy decisions of those investee companies. Therefore, investments in those companies are classified as investments in securities in the financial statements.

At December 31, 2004, all investments in unlisted securities are measured at fair value, except for certain investments in unlisted securities which fair value cannot be reasonably estimated were stated at cost, net of any impairment loss. All the investments in unlisted securities which were measured at fair value were disposed during the current year ended December 31, 2005. Appreciation in value previously recognized in respect of investments in unlisted securities upon disposal of US$6,893,114 was released from capital reserve for the current year.

15. INVESTMENTS IN LISTED SECURITIES

	2005 US$	2004 US$
Listed securities, at fair value:		
Shares listed on Hong Kong Stock Exchange	**8,570,216**	7,361,506
Shares listed on Taiwan Stock Exchange	**424,759**	1,877,126
Non-tradable listed securities (Note)	**2,429,196**	7,420,709
	11,424,171	16,659,341

The investments in listed securities are held for long-term and non-trading in nature. Fair value of the investments in listed securities have been determined by reference to bid prices quoted in active markets.

Unrealized loss arising from fair value changes of investments in listed securities of US$2,819,078 was recognized directly in capital reserve for the current year.

Note:

The amount represents the investment in Semiconductor Manufacturing International Corporation ("SMIC"), whose shares are listed on both 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. Fair value of the non-tradable listed securities have been determined by reference to the quoted market bid price. The directors are of the opinion that the Post Lock-up Period may have little, if any, effect on the price that a knowledgeable, willing market participant would pay for these shares.

16. INVESTMENT PROPERTY

	2005 US$	2004 US$
Fair value:		
At January 1	**567,000**	567,000
Increase in fair value recognized in the income statement	**73,000**	–
At December 31	**640,000**	567,000

16. INVESTMENT PROPERTY *(Cont'd)*

The fair value of the Company's investment property at December 31, 2005 had been arrived on the basis of a valuation carried out on that date by Chesterton Petty Limited, an independent qualified professional valuers not connected with the Company. Chesterton Petty Limited is a member of Hong Kong Institute of Surveyors, and have appropriate qualifications and recent experiences in the valuation of similar properties in the relevant locations. The valuation, which conforms to International Valuation Standards, was arrived at by reference to market evidence of transaction prices for similar properties.

It is the intention of the directors to hold this property to earn rentals and for capital appreciation purposes. The comparative figure has been reclassified from property held for resale to conform with current year's presentation.

The property is located in the PRC and held under long lease. The property interest in land held under operating lease is measured using the fair value model and is classified and accounted for as investment property. The Company did not receive any rental income from the property held for resale for the year ended December 31, 2004 and 2005.

17. OTHER FINANCIAL ASSETS

Dividend, interest and other receivables

The fair value of the Company's dividend, interest and other receivables at December 31, 2005 was approximate to the corresponding carrying amount.

Bank balances

Bank balances comprise short-term bank deposits at prevailing market interest rates. The fair value of these assets at December 31, 2005 was approximate to the corresponding carrying amount.

Included in the bank balances are the Renminbi short-term bank deposits of US$892,123 *(2004: US$2,523,227)* kept in a financial institution registered in the PRC, and Renminbi is not a freely convertible currency.

18. SHARE CAPITAL

	Number of ordinary shares of US$0.1 each	**Share capital** US$
Authorized:		
At January 1, 2004, December 31, 2004 and December 31, 2005	18,000,000	1,800,000
Issued and fully paid:		
At January 1, 2004, December 31, 2004 and December 31, 2005	8,905,000	890,500

19. 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, 2005 of US$35,922,657 *(2004: US$57,373,522)* and on the number of 8,905,000 *(2004: 8,905,000)* ordinary shares in issue as at December 31, 2005.

20. RELATED PARTY TRANSACTIONS

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

	2005	2004
	US$	US$
Investment management and administration fees paid and payable to Shanghai International Asset Management (Hong Kong) Company Limited (the "Investment Manager")	**1,727,700**	1,121,335
Amount due to Investment Manager at balance sheet date	**184,073**	292,694

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.

Without any changes in the calculation of management and administrative fee, the Company entered into a Fourth Supplemental Agreement on April 11, 2005 for a term of 3 years commencing on July 1, 2005.

Amount due to Investment Manager is unsecured, interest free and repayable on demand. The fair value of amount due to Investment Manager at the balance sheet date approximates to the corresponding carrying amount.

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

Details of compensation of key management personnel are set out in note 9 to the financial statements.