MARKET REVIEW

China Economy

China's major economic indicators are set forth below:

Growth (year-on-year, per cent.)	**2005**	**1H 2006**	**2006**
Gross domestic product ("GDP")	10.4	**10.9**	**10.7**
Value added industrial output	16.4	**17.7**	**16.6**
Retail sales	12.9	**13.3**	**13.7**
Consumer price index ("CPI")	1.8	**1.3**	**1.5**
Fixed asset investments ("FAI")	26.0	**29.8**	**24.0**
Actual foreign direct investments	-0.5	**-0.5**	**4.5**
Exports	28.4	**25.2**	**27.2**
Imports	17.6	**21.3**	**20.0**
Trade surplus (US$ billion)	101.8	**61.4**	**177.5**
Foreign exchange reserve (US$ billion)	818.9	**941.1**	**1,066.3**

Source: Published information

China's GDP accelerated to 10.7% year-on-year in 2006, slightly faster than the consensus estimate of 10.5%. The growth rate was 10.4% year-on-year in the fourth quarter, slightly lower than the 10.6% in the previous quarter. GDP has been in a downward trend since the second half of 2006 as growth peaked at 11.5% in the second quarter, but the overall growth rate was still the highest in eleven years. Meanwhile, the National Bureau of Statistics further revised the 2005 GDP growth rate from the previously adjusted 10.2% to 10.4% year-on-year. On the output side, value-add in the manufacturing and construction industry is still the driver, up 12.5% year-on-year, while value-add in the primary and tertiary industry rose 5.0% and 10.3% respectively. China's economy continues to remain robust despite a series of macro tightening measures by the central government to curb inflation.

Total FAI increased 24.0% in 2006, with a drop of 2.0 percentage point over the previous year. FAI growth was significantly slower in the fourth quarter due to administrative controls. However, the growth rate was still far higher than the government's 2006 target of 18%. Total investment in real estate development for 2006 was 1,938.2 billion RMB, a year-on-year growth of 21.8%, which was 0.9 percentage point higher than that in the previous year. FAI is likely to rebound once government's austerity measures begin to relax, given improved growth in industrial profits and excess liquidity in the banking sector.

MARKET REVIEW *(Cont'd)*

China Economy *(Cont'd)*

During the year, total retail sales of consumer goods increased 13.7%, or 0.8 percentage point higher than 2005. Of this total, urban retail sales rose 14.3%, while rural retail sales increased by 12.6%. On the production side, sales of automobiles and petroleum and related products were up by 26.3% and 36.2% respectively. Since retail sales represented over 70% of domestic consumption, it appears the Chinese government's policy to shift the growth engine from export-driven to consumption oriented has began to show effect. With bullish stock market, increased income, and rising property prices, the resultant liquidity is likely to further boost domestic consumption. However, such strong demand inevitably led to inflationary pressure as CPI quickened to 2.8% in December 2006, mainly due to rise in food prices which were up 5.9% attributable to hike in international agricultural product prices. CPI rose 1.5% year-on-year in 2006, 0.3 percentage point lower than that of 2005, indicating that general price level was still under control.

Actual foreign direct investments in 2006 soared to US$63 billion, an increase of 4.5% year-on-year. RMB appreciation has minimal impact in foreign trade as exports remained robust and trade surplus surged to a record high of US$177.5 billion. Exports growth rate, on the other hand, slowed from 28.4% in 2005 to 27.2% in 2006 while imports growth quickened from 17.6% in 2005 to 20.0% in 2006. At the end of 2006, China's foreign exchange reserves reached US$1,066.3 billion, thereby generating greater pressure from other countries for the RMB to appreciate.

For 2007, encouraging domestic consumption and structural reform on investment will remain high on the agenda of the Chinese government. Equally important is the objective to reduce the trade surplus to enhance a more balanced and sustainable economic growth. In addition, the Chinese government will continue to deploy fiscal policies to accelerate infrastructure investments in rural areas to narrow the income gap between that and the urban areas, and to consider using all available monetary policy tools such as interest rate, exchange rate, and quantitative measures to counter inflation and to cool overheated investments in the property sector and the stock market if necessary.

Hong Kong Economy

Hong Kong's GDP growth was at 6.8% in 2006, slower than the 7.5% growth in 2005 but still beat the consensus estimate of 6.6%. Its economy has been growing for the past three and a half years, the best performance since the Asian financial crisis. With China as its hinterland market and being one of China's major investors, Hong Kong's economy will continue to benefit from its close affinity with China. Private domestic consumption reached 5.8% in the fourth quarter from 3.4% year-on-year, while exports of goods accelerated to 11.7%, the biggest increase in nine months. Unemployment rate dropped to 4.4% in 2006, the lowest in six years. The record high employment and robust stock market helped to boost private consumption.

Looking forward, the decrease in the number of visitors from China and rising rental cost will be the major challenges for Hong Kong in 2007. However, the peaking of US interest rate, the low inflationary environment in Hong Kong, the abundance of liquidity from speculation on RMB revaluation, the healthy formation of domestic capital growth, and the perceived cut in interest rate will likely to continue the relatively robust economic growth for Hong Kong.

LISTED INVESTMENTS REVIEW

Hang Seng Index ("HSI") rose for the fourth consecutive year with a remarkable gain of 34% year-on-year in 2006 and closed at 19,964. Performance of the Hang Seng China Enterprise Index ("HSCEI" or the "H-shares Index") was even more spectacular and became the top performer among major indices as it surged 94% year-on-year and closed at 10,340. However, Hong Kong stock market experienced big swings during the year as uncertainty over inflation and rising energy prices affected market sentiments. For example, in the second quarter, HSI and HSCEI surged 9.5% and 10.1% at one point, reaching new highs of 17,301 and 7,377 respectively. When Fed Chairman Ben Bernake issued strong statements on inflation and interest rates outlook in the second quarter, global capital markets were spooked and sparked a mini stock market crash in emerging markets, with HSI and HSCEI sliding 11.1% and 20% from their highs respectively. HSI and HSCEI recovered their lost ground quickly in the third quarter as the Fed finally paused on the interest rate hikes. Successful listing of Industrial and Commercial Bank of China ("ICBC") further attracted capital inflow and lifted HSI to historic high in the fourth quarter. In 2006, China Mobile and HKEX were the best performers among HSI constituents, rising 84% and 166% respectively.

Robust economic growth, appreciation of RMB and skyrocketing A-share market all contributed to the stellar performance of H-shares. Financial sector in particular got a boost from the successful IPOs of both Bank of China and ICBC during the period. China Life and Ping An Insurance, two of the top gainers in HSCEI, surged 286% and 201% respectively in 2006.

New listings performed well as a whole in 2006. Taking advantage of the improved market sentiment and ample liquidity, 56 new companies received approval to list on the Hong Kong stock exchange. Total funds raised amounted to HK$332.1 billion or approximately US$42.58 billion. As of December end of 2006, the best performing newly listed companies included Nine Dragon Papers and Hunan Nonferrous Metals, prices of which soared 295% and 172% from their initial offering prices respectively.

Taking into focus the rising influence of mega Chinese listed companies in Hong Kong in recent years, the Hang Seng Index Services Corporation announced a major revision in the HSI. Under the new regime, compilation of the HSI will be switched from a full market capitalization weighted formula to a free float adjusted market capitalization weighted formula with a 15% cap on individual stock weightings. Most importantly, in order to ensure that the HSI will remain sufficiently broad-based to represent the Hong Kong equity market, 5 eligible fully circulated H-shares were added to the selection of the then existing 33 non-H-share constituents, making a total of 38 constituent stocks. China Construction Bank, Bank of China and China Petroleum & Chemical Corporation are three such new H-share constituents to join the index.

During the year under review, the Company's listed securities portfolio recorded a 15% gain. After a stellar performance in 2006, analysts and traders generally believe the Hong Kong stock market will be more volatile than the past year but overall will continue to perform well in 2007 due to abundant liquidity and sound economic fundamentals. Investors' confidence notwithstanding, the Company is mindful of the rich valuation in most stocks of which the market may have already priced in such factors as positive earnings from corporations and perceived benefits from possible tax reform in China. Moreover, uncertainty over short-term capital movement may also invoke greater volatility in the stock market. Although the Company's outlook for 2007 remains optimistic, it will remain vigilant to any change in China's policy statements and cautious of the market movements.

LISTED INVESTMENTS REVIEW *(Cont'd)*

LISTED SECURITIES PORTFOLIO

As at December 31, 2006

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$
China Everbright Ltd.	Financial services and investment holding	496,000	0.0316	327,160	580,657	2.09	–
China Merchants Bank Co. Ltd. – H shares	Banking and related financial services	200,000	0.0075	383,309	424,018	1.53	–
COSCO International Holdings Ltd.	Property investment and ship trading	1,600,000	0.1103	363,750	566,044	2.05	10,374
First Tractor Co. Ltd. – H Shares	Agricultural machinery	1,100,000	0.3284	269,002	373,589	1.35	–
HSBC Holdings Plc	Banking and related financial services	60,000	0.0005	1,009,279	1,100,698	3.97	37,792
Hutchison Whampoa Ltd.	Diversified corporation	95,000	0.0022	944,254	966,102	3.49	21,173
Industrial & Commercial Bank of China Ltd. – H shares	Banking and related financial services	1,549,000	0.0019	717,236	962,489	3.47	–
PetroChina Co. Ltd. – H shares	Oil and petroleum products	800,000	0.0038	555,735	1,134,146	4.09	36,153
PICC Property & Casualty Co. Ltd. – H shares	Property and casualty insurance	1,026,000	0.0297	407,258	526,645	1.90	–
Semiconductor Manufacturing International Corporation ("SMIC") *	Fabricate semiconductor for integrated circuit design	19,394,540	0.1052	2,163,637	2,519,987	9.09	–
Total				7,140,620	9,154,375	33.03	105,492
Other listed securities				598,502	709,353	2.56	83,693
Total investment in listed securities				7,739,122	9,863,728	35.59	189,185

* *As at December 31, 2006, 1,737,135 shares held in SMIC were not freely tradable. Details of this investment are set out in note 14 to the financial statements.*

LISTED INVESTMENTS REVIEW *(Cont'd)*

LISTED SECURITIES 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*	Semiconductor 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 14 to the financial statements.*

LISTED INVESTMENTS REVIEW *(Cont'd)*

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 listed shares upon SMIC's listing in March 2004. As of December 31, 2006, 19,394,540 shares in SMIC were held by the Company, of which 1,737,135 shares were the last batch of lock-up shares which have been released on February 25, 2007. As of December 31, 2006, the Company registered a net gain of approximately US$4 million or 64% in respect of partial sale and continuous holding of this listed investment.

SMIC and SAIFUN Semiconductors Ltd., a provider of intellectual property (IP) solutions for the non-volatile memory (NVM) market, jointly announced that SMIC will use the SAIFUN NROM(r) technology to develop and manufacture Flash memory cards. This unique product is expected to reach the market in 2008.

Infineon Technologies, a world-leading semiconductor solutions provider, entered into an agreement with SMIC to produce standard memory chips (DRAMs) in 90 nanometer (nm). Under the new agreement, Infineon will transfer its leading 90nm DRAM trench technology and 300-mm production know-how to SMIC.

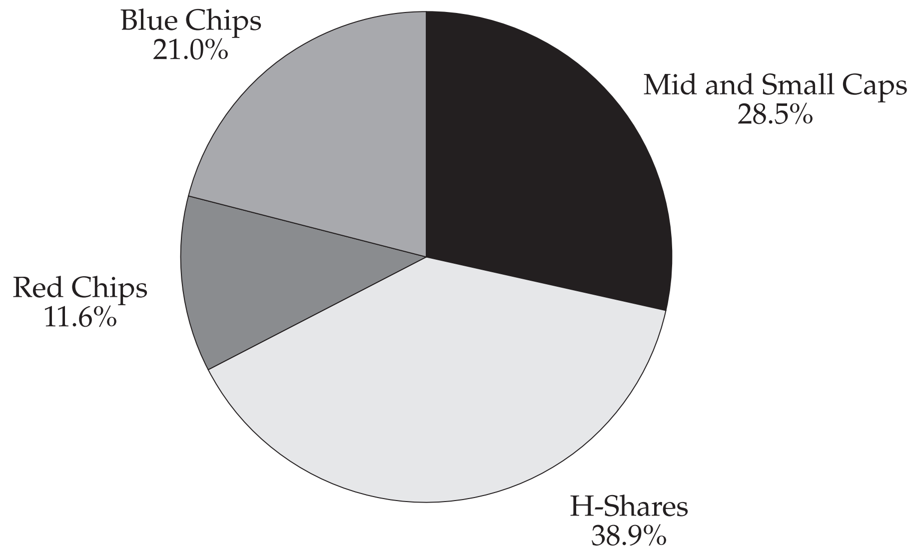
SMIC announced its first 12-inch fab in central China has begun construction in Wuhan, Hubei Province. Wuhan Xinxin Semiconductor Manufacturing Corp. will own the facility and has engaged SMIC to manage it. The fab is scheduled for completion by the end of 2007, and commercial production is scheduled to start in the first half of 2008. The monthly 12-inch wafer capacity is estimated to be 12,500 initially, increasing progressively up to 20,000-25,000 in 2009.

SMIC's wholly-owned subsidiaries, Semiconductor Manufacturing International (Tianjin) Corporation, and Semiconductor Manufacturing International (Shanghai) Corporation ("SMIC Shanghai") have each successfully closed a 5-year secured term loan with a syndication comprised of international and PRC banks. The loans will finance the expansion of SMIC's 200-mm fab facility in Tianjin and support future growth of SMIC Shanghai.

On September 13, 2006, SMIC announced that in addition to filing a response strongly refuting allegations of Taiwan Semiconductor Manufacturing Company Ltd ("TSMC") in the United States lawsuit, it has also filed a cross-complaint against TSMC, seeking, amongst other things, damages for TSMC's breach of contract and breach of implied covenant of good faith and fair dealing.

LISTED INVESTMENTS REVIEW *(Cont'd)*

Listed Securities Portfolio Allocation



Investment Allocation

	December 31, 2006	December 31, 2005
Unlisted investments	**–**	11%
Listed investments	**36%**	32%
Investment property	**3%**	2%
Consideration receivables *	**8%**	–
Cash and cash equivalents	**53%**	55%
Total	**100%**	100%

* *Represents receivables from the sale of Shanghai Well Bright Foods Co., Ltd.*

UNLISTED INVESTMENTS REVIEW

During the year under review, the Company divested its investment in Shanghai Well Bright Foods Co., Ltd via a wholly-owned special purpose vehicle. As at December 31, 2006, apart from those investments which valuation have been fully impaired and fully provided for, the Company has exited from all active unlisted investments.

On August 8, 2006, the Ministry of Commerce ("MOFCOM"), joined by the State-owned Assets Supervision and Administration Commission of the State Council, State Administration of Taxation, State Administration for Industry and Commerce, China Securities Regulatory Commission and State Administration of Foreign Exchange, released a revised Provisions for Foreign Investors to Merge and Acquire Domestic Enterprises (the "M&A Rules"). The revised M&A Rules, which took effect on September 8, 2006, represents an important step in China's further development to regulate and govern acquisitions of China-based companies by foreign interests. The revised M&A Rules empowers MOFCOM the authority in anti-trust and M&A reviews which may significantly affect the means by which offshore and onshore restructurings are conducted in China in connection with offshore private equity and venture capital financings, mergers and acquisitions, and initial public offerings. As a result, the lengthy approval procedures and additional uncertainty hamper the M&A process and increase the cost of conducting direct investments.

During the year under review, the Company continued to adopt a prudent and thorough investment approach to explore scores of new investment opportunities. Among those prospects, further due diligence and research in a number of selected companies were conducted. However, due to the overhang of the M&A Rules and the horizons to profitability of those reviewed prospects, the Company was not comfortable with the relatively uncertain exit alternatives suggested and remained cautious in its investment approach.

Highlights of Progress

- **Shanghai Well Bright Foods Co., Ltd. ("Well Bright"):** The Company set up an offshore special purpose wholly-owned subsidiary, Guardian Investment Growth Limited ("Guardian"), to which the Company's entire beneficial interest in Well Bright was transferred. Guardian entered into a sale and purchase agreement with a purchaser to divest its entire interest in Well Bright for a consideration of US$4,560,000. The share transfer was approved by Songjiang authority on October 19, 2006, pursuant to which a realized gain of US$600,000 was recorded.

- **Zhejiang Huguang Heat and Power Co., Ltd. ("Zhejiang Huguang"):** The Company's sale of its 25% equity interest in Zhejiang Huguang was completed on March 20, 2006 upon receipt of approval from the Foreign Trade and Economic Cooperation Bureau in Shaoxing on the relevant share transfer. Since all sale proceeds were already received in 2005, the approval formally concluded the Company's exit from this investment.

- **GSMC International Limited ("GSMCI"):** Since its exit from GSMCI in 2002, the Company has recovered all of its invested capital at the end of March 2006. A net gain of US$129,490 was recorded, representing interest compensation paid by GSMCI at 8% per annum on outstanding principal.

UNLISTED INVESTMENTS REVIEW *(Cont'd)*

UNLISTED INVESTMENTS

As at December 31, 2006

Invested projects	Nature of business	% of equity interest	Amount invested at cost US$	Impairment US$	Carrying value of investment at 31.12.2006 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 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)	–	–	–	–
			8,743,600	(8,743,600)	–	–	–	2,080,520

Note: Investment in Shanghai Well Bright Foods Co., Ltd. was disposed during the year.

As at December 31, 2005

Invested projects	Nature of business	% of equity interest	Amount invested at cost US$	Impairment US$	Carrying value of investment at 31.12.2005 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 Foods, 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: Investment in Suzhou Taihai Automobile Ferry Wharf Co., Ltd., Concord Greater China Limited and Zhejiang Huguang Heat and Power Co., Ltd. were disposed in the year 2005.

UNLISTED INVESTMENTS REVIEW *(Cont'd)*

DIVESTMENTS

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

Well Bright produces and distributes frozen prepared food in China and its clientele includes Kentucky Fried Chicken 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"). In 2003, Well Bright declared its inaugural dividend out of which Amazing Results chose to reinvest its share in Well Bright. Consequently, the Company's equity interest was proportionately diluted to 27.83%.

The Company has held numerous discussions with Amazing Results over its management of Well Bright, and even instituted arbitration against Amazing Results' alleged breach of contract but to no avail. The Company's Board authorized the incorporation of Guardian Investment Growth Limited ("Guardian") in April 2006, a wholly-owned offshore subsidiary special purpose vehicle to which the Company's entire beneficial interest in Well Bright was transferred. Similarly, Amazing Results also transferred its entire beneficial interests to Well Great International Holdings Limited ("Well Great"). The respective transfer of shares by Well Bright's shareholders were approved by Songjiang government authority on August 14, 2006.

On September 29, 2006, Guardian entered into a sale and purchase agreement with Well Great to divest its entire interest for US$4,560,000 ("Share Sale"). The consideration will be satisfied in cash by three installments with the first deposit of US$2,250,000 payable within five days after signing of the agreement. The second installment of US$1,150,000 and the third installment of US$1,160,000 shall be satisfied no later than March 31, 2007 and September 30, 2007 respectively. Guardian received the first payment of US$2,250,000 in full on October 5, 2006, which in turn was returned to the Company on December 4, 2006. Consequently, Guardian's share capital was correspondingly reduced by the same amount.

On October 19, 2006, Sonjiang's government authority approved the Share Sale, and Guardian thus officially exited from its investment in Well Bright, with two remaining receivables due from Well Great. Contractually, a realized gain of US$600,000 was recorded. Upon receiving the remaining installments of US$2,310,000 in 2007, the Company's exit from this investment will represent a total return of US$1,015,000 (inclusive of prior year dividends received) or a total rate of return of 25.6%.

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 25% equity in the company. The Company divested this investment in 2005 and received all proceeds in the same year. The Company exited from this investment on March 20, 2006 upon receipt of approvals.

GSMC International Limited ("GSMCI")

The Company recovered all its invested capital at the end of March 2006 with a net gain of US$129,490 in interest earned.

UNLISTED INVESTMENTS REVIEW *(Cont'd)*

CURRENT INVESTED PORTFOLIO

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

Lian Ji is incorporated in 1994, its principal activity is manufacturing chemical fiber for the textile and chemical industries. In July 1995, the Company invested US$6,275,000 in exchange for a 15% equity interest in Lian Ji. In 2002, the Company sold 3% of its share to the other two shareholders as pre-condition to its consent for the Phase III capacity expansion. Lian Ji's board resolved to distribute the retained earnings to all shareholders who agreed to apply all of their respective entitlements as further capital injection for Lian Ji's Phase III capacity expansion. The Company's investment in Lian Ji was accordingly adjusted to US$6,121,600, representing 11.1% of the enlarged share capital.

Lian Ji has been operating in the red for the past several years, attributable to high oil price and intense competition. Shareholders in general are convinced Lian Ji is not likely to return to profitability in the near future. The Company made impairment losses of US$1,000,000 and US$5,121,600 in 2004 and 2005 respectively, pursuant to which the Company's investment in Lian Ji was fully provided.

During 2006, oil price and prices of major raw materials such as PTA and MEG continued to plague Lian Ji's operation. To minimize loss, Lian Ji trimmed its raw material inventory to reduce procurement risk and free up working capital. It also lowered its production utilization rate. As a result, Lian Ji's operation loss was greatly reduced to RMB52.8 million, down 68% from 2005.