

The Directors present their annual report and the audited financial statements for the year ended December 31, 2006.

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 doing business with the People's Republic of China ("PRC"). The investment philosophy of the Company is in identifying, screening, analyzing, and conducting due diligence on investment potentials in the Greater China confine, principally in wholly foreign-owned enterprises, existing or newly established sino-foreign equity joint ventures or co-operative joint ventures, joint stock companies, or other vehicles authorized for foreign investments under applicable laws of the PRC. The Company also invests in PRC-related listed securities with the same investment objective in achieving long term capital appreciation of the Company's assets.

RESULTS AND APPROPRIATIONS

The results of the Company for the year ended December 31, 2006 are set out in the income statement on page 35.

The Board proposes the payment of a special final dividend of US\$0.50 per share in cash from the Company's share premium account for 2006 to shareholders on the register of members on April 18, 2007, amounting to US\$4,452,500.

SHARE CAPITAL

Details of the share capital of the Company are set out in note 17 to the financial statements.

DISTRIBUTABLE RESERVES

The Company's reserves available for distribution to shareholders as at December 31, 2006 were as follows:

	2006 US\$	2005 US\$
Share premium	30,767,435	41,453,435
(Accumulated losses)/retained earnings	(242,472)	193,778
Capital reserve	(3,698,808)	(6,615,056)
	26,826,155	35,032,157

Under the Company Law (Revised) Chapter 22 of Cayman Islands, the share premium of the Company is available for distribution.

The Company's Articles of Association requires gains on realization and revaluation of investment in securities and assets shall not be available for distribution as dividend. Therefore, those gains and losses on investments in securities and assets recognized in the income statement are transferred to the capital reserve in the period in which they arise.

INVESTMENTS

Details of the top ten holdings of listed investments and the unlisted investments as at December 31, 2006 are set out on pages 10 and 15 respectively.

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 ("INEDs"):

Dr. Hua, Min
Mr. Ong, Ka Thai
Mr. Yick, Wing Fat, Simon

Other Non-Executive Directors:

Mr. Cai, Nongrui
Mr. Chen, Chi-chuan
Mr. Chiu, Tak-chiang (also known as Yau, Tak Chiang)
Mr. Hu, Jinggang
Mr. Lee, Tien-chieh
Mr. Tseng, Ta-mon
Dr. Wang, Changhong
Mr. Zhou, Youdao
Mr. Chiang, Ching-yee (retired on April 25, 2006)

All Directors are subject to retirement by rotation in accordance with the Company's Articles of Association ("Articles"). The INEDs are each appointed for a term of two years.

At the forthcoming annual general meeting of the Company, Dr. Xue, Wanxiang, Mr. Ong, Ka Thai, Mr. Chiu Tak-chiang, Mr. Hu, Jinggang will retire as directors in accordance with Article 98(b), 98(c) of the Company's Articles. Except for Mr. Chiu, Tak-chiang and Mr. Hu, Jinggang, the other two retiring directors, being eligible, offer themselves for re-election. All other remaining directors continue in office. The Board would like to express its gratitude to Mr. Chiu and Mr. Hu for their past contributions to the Company.

DIRECTORS' SERVICE CONTRACTS

Except for all the INEDs who entered into service contracts with the Company each with an annual remuneration of HK\$100,000, no other Directors have a service contract with the Company or received remuneration from the Company.

BIOGRAPHICAL DETAILS OF DIRECTORS

RC – Remuneration Committee

AC – Audit Committee

Wu, Choi Sun William (RC)

Aged 58, has been an Executive Director of the Company and the Managing Director of Shanghai International Asset Management (Hong Kong) Company Limited (the "Investment Manager") since February and June 2001 respectively. Prior to joining the Company, Mr. Wu was Executive Director of two listed companies under the Tomson Group, during which tenure Mr. Wu was involved in a number of significant direct investments in China, and instrumental to re-organize the asset portfolios of the listed companies.

Before returning to Hong Kong, Mr. Wu was a board director of Webster Johnson & Stowell, a U.S. consulting company specializing in difficult markets. As head of markets in the eastern hemisphere, Mr. Wu had 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 close to 30 years' experience in business development, advisory, corporate finance and equity investment. He is a responsible officer of the Investment Manager, registered with the Hong Kong Securities and Futures Commission.

Xue, Wanxiang (RC)

Aged 41, joined the Company in June 2003 and is an Executive Director and Vice President of the Investment Manager. Dr. Xue holds a doctorate degree in International Finance from Shanghai Fudan University, PRC. He obtained his Master's degree in Economics and Bachelor of Science degree from East China Normal University. Before joining the Company, Dr. Xue was the Deputy General Manager of Shanghai Securities Co., Ltd. since 2001. He was head of two departments while at Fujian Industrial Bank Co., Ltd., Shanghai Branch from 1998 to 2001. Before that, he was with the Peoples Bank of China, Shanghai Branch from 1995 to 1998. Dr. Xue has over 10 years' senior management experience in the banking and securities sector in the PRC.

Hua, Min (AC and RC)

Aged 56, has been an INED since September 2004. Dr. Hua graduated from Fudan University with a Bachelor's degree in Economics and holds a Doctorate in World Economics from Fudan University. He is currently Chairman of the Institute of World Economy, Chief of World Economics Department and vice-chief of Academic Committee of Fudan University. Dr. Hua is an advisor for doctoral candidates. He has been teaching and conducting research in world economics, China economics and finance at Fudan University since 1990. He is also an advisor to the Policy-Making Committee of Shanghai Municipal government.

BIOGRAPHICAL DETAILS OF DIRECTORS *(Cont'd)*

Ong, Ka Thai *(AC and RC)*

Aged 52, has been an INED since June 1997 and Chairman of the RC. Mr. Ong is the Chairman of a number of companies including Ong First Tradition 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.

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.

Yick, Wing Fat, Simon *(AC and RC)*

Aged 48, has been an INED since July 1999 and Chairman of the AC. Mr. Yick holds a Bachelor's degree in Business Administration from the Chinese University of Hong Kong, majoring in Accounting. He is a fellow of the Hong Kong Institute of Certified Public Accountants and the Chartered Association of Certified Accountants in England. Mr. Yick has over 24 years of experience in audit, direct investment, investment banking and corporate advisory services.

Mr. Yick also serves as an INED and chairman of the audit committee for two other companies whose shares are listed on the Stock Exchange, namely Shenzhen Neptunus Interlong Bio-technique Co., Ltd. and Travelsky Technology Limited. Mr. Yick is also the INED and chairman of the audit committee of China-Biotics, Inc., a company whose shares are quoted on the Over-the-Counter Bulletin Board market of the United States.

Cai, Nongrui

Aged 59, has been a Non-Executive Director of the Company and a director of the Investment Manager since December 1997. Mr. Cai joined Shanghai International Trust & Investment Co., Ltd. ("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 Chief Financial Officer of the Yangshan Deepwater Port project, a multi-billion project linking Shanghai municipality and Jiangsu province to transform Shanghai's waterfront landscape and boost eastern China's container handling facilities.

Chen, Chi-chuan *(AC)*

Aged 49, has been a Non-Executive Director of the Company and a director of the Investment Manager since 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.

BIOGRAPHICAL DETAILS OF DIRECTORS (Cont'd)**Chiu, Tak-chiang (also known as Yau, Tak Chiang)**

Aged 53, has been a Non-Executive Director of the Company and a director of the Investment Manager since January 2002. Mr. Chiu is Managing Director of SinoPac Capital Limited, a wholly-owned subsidiary of SinoPac Financial Holdings Limited ("SinoPac"), a listed banking group in Taiwan. Prior to joining SinoPac, Mr. Chiu was Managing Director and co-founder of Masterlink Securities Co., Ltd. and Investlink Co. Ltd. of Taiwan. Mr. Chiu began his investment banking career at Citibank in Taiwan and has over 26 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.

Hu, Jinggang

Aged 55, has been a Non-Executive Director of the Company and a director of the Investment Manager since 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 and was the director and general manager of Shaivest Corporation Limited. Mr. Hu was appointed as Steward of SITICO's Labor Union in October 2005.

Lee, Tien-chieh

Aged 47, was appointed as a Non-Executive Director in March 2005. Mr. Lee graduated with a Bachelor's degree in Business Management from the Tatung Institute of Technology of Taiwan, and has over 18 years of experience in financial management. Mr. Lee is currently the Vice President of the Finance Division of Ruentex Industries Limited, which is a substantial shareholder of the Company.

Tseng, Ta-mon

Aged 48, was appointed as a Non-Executive Director in March 2005. Mr. Tseng is a Barrister-at-Law. He is a law graduate from the National Chengchi University, Taiwan, and holds a Master's degree in Law from London University, a Bachelor's degree in Arts from Cambridge University and was called to the English Bar in 1985. Since 1993, Mr. Tseng is Special Assistant to the President and heads the legal department of the Ruentex Group of Companies in Taiwan and is currently an alternate director of APT Satellite Holdings Limited, a company listed on the Stock Exchange.

Wang, Changhong

Aged 48, has been a Non-Executive Director since 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 Ph.D. and a Juris Doctor from the University of Pennsylvania, U.S.A.

BIOGRAPHICAL DETAILS OF DIRECTORS *(Cont'd)*

Zhou, Youdao

Aged 69, has been appointed as Non-Executive Director of the Company since December 1998. Mr. Zhou is Chairman of the Investment Manager. Since May 1969, Mr. Zhou was deputy chief of Shanghai Finance Bureau's First Division. In August 1984 he was deputy head of the Financial and Monetary Department of The Finance and Trade Office of Shanghai Municipal Government. In December 1985, he was Deputy Bureau Director of Shanghai Finance Bureau, deputy chairman, and later became chairman. Since April 1998, he was transferred to SITICO and was later appointed Chairman and President. He was also appointed Chairman of Shanghai International Group Corporation Limited, the holding company of SITICO. Currently, he is chairman of the Shanghai Institute of Certified Public Accountants.

INVESTMENT MANAGEMENT AND ADMINISTRATION AGREEMENT AND CONTINUING CONNECTED TRANSACTIONS

The Company's investment portfolio is managed by the Investment Manager, in accordance with 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 subsequent supplemental agreements dated January 22, 2001, September 12, 2001, November 3, 2003 and April 11, 2005 respectively. Pursuant to the Fourth Supplemental Agreement dated April 11, 2005, the Investment Manager's appointment is extended for a term of 3 years commencing from July 1, 2005. The Company is required to fully comply with the continuing connected transaction requirements under the Listing Rules in respect of investment management and administration services (the "Transactions") to be provided by the Investment Manager pursuant to the aforesaid Investment Management Agreement.

In accordance with terms of the agreements, the Investment Manager is entitled to receive a management and administration fee, plus an incentive fee if certain criteria are met. The investment management and administration fee is calculated in U.S. dollars and payable 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 Manager is entitled to an incentive fee of 15% of the amount on top and above that portion of the net asset value of each asset class representing listed securities (the "Listed Investment Portfolio") unlisted securities or direct investment interests (the "Unlisted Investment Portfolio") as at December 31 of each year exceeding 115% of that portion of the net asset value of the respective portfolio above-mentioned 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.

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

Since the Company pays annual and in particular special dividends to its shareholders, which permanently reduced the net asset value, the Company and the Investment Manager agreed that with effect from June 30, 2003, no incentive fee shall be payable to the Investment Manager if the net asset value of the Company at December 31 of the relevant year is less than US\$6.20, and thereafter such threshold shall be adjusted annually according to the actual amount of special dividends paid out for the immediately preceding year(s) and that any such adjustments shall be approved by the Board in accordance with the Articles of the Company. The threshold has since been adjusted to US\$3.30 subsequent to special dividend payouts in 2004, 2005 and 2006.

During the year ended December 31, 2006, investment management and administration fees of US\$625,168 were paid to the Investment Manager.

Pursuant to Rule 14A.38 of the Listing Rules, the Board of Directors engaged the auditors of the Company to perform certain agreed procedures in respect of the continuing connected transactions of the Company. The auditors have reported their factual findings to the Board. The INEDs have reviewed the Transactions and the auditor's report and confirmed that (i) the Transactions have been entered into by the Company in the ordinary and usual course of business and in accordance with the terms and conditions of the Investment Management Agreement and the supplemental agreements thereto, and (ii) the consideration of the Transactions for the period from January 1, 2006 to December 31, 2006 does not exceed the relevant New Cap as specified in the Fourth Supplemental Agreement.

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 AND SHORT POSITIONS IN SHARES

At December 31, 2006, none of the Directors of the Company or any of their associates had any interests or short positions in 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").

DIRECTORS' INTEREST IN CONTRACTS OF SIGNIFICANCE

Other than the Investment Management Agreement described above, no significant contract 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.

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 acquisition of shares in, or debentures of the Company or any other body corporate.

SUBSTANTIAL SHAREHOLDERS

As at December 31, 2006, 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	Capacity	Number of shares	Percentage of total issued shares	Notes
Mr. J. Ezra Merkin	Held by controlled corporation	1,690,500	18.98%	(1)
Gabriel Capital Corporation	Held by controlled corporation	1,223,239	13.74%	(1)
Gabriel Capital, L.P.	Beneficial owner	467,261	5.25%	(1)
Ariel Fund Limited	Beneficial owner	690,578	7.75%	(1)
Mr. Hsu Sheng-yu	Interest of controlled corporation	1,075,040	12.07%	(2)
Chung Chia Co., Ltd.	Beneficial owner	598,743	6.72%	(2)
Kwang Shun Co., Ltd.	Beneficial owner	476,297	5.35%	(2)
Ms. Hsu Tsui-hua	Held by controlled corporation	598,743	6.72%	(3)
Ms. Chang Hsiu-yen	Held by controlled corporation	476,297	5.35%	(4)
Shanghai International Group Corporation Ltd.	Held by controlled corporation	503,000	5.65%	(5)
Shanghai International Trust Investment Corporation	Beneficial owner	503,000	5.65%	(5)
Dover Street VI L.P.	Beneficial owner	500,000	5.61%	
Ruentex Industries Ltd.	Held by controlled corporation	616,752	6.93%	(6)
Ruentex Development Co., Ltd.	Held by controlled corporation	597,752	6.71%	(7)

SUBSTANTIAL SHAREHOLDERS (Cont'd)

Notes:

- (1) Mr. J. Erza Merkin is the General Partner of Gabriel Capital, L.P, he was deemed to be interested in 1,690,500 shares by virtue of his 100% control over Gabriel Capital Corporation and Gabriel Capital, L.P. Besides, Gabriel Capital Corporation was also deemed to be interested in the Company through its management of Ariel Fund Limited 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 Co. Ltd. and Kwang Shun Co., Ltd..
- (3) Ms. Hsu Tsui-hua has an indirect interest in the Company through her 50% beneficial interest in Chung Chia Co., Ltd..
- (4) Ms. Chang Hsiu-yen has an indirect interest in the Company through her 50% beneficial interest in Kwang Shun Co., Ltd..
- (5) Shanghai International Group Corporation Ltd. has an indirect interest in the Company through its approximately 66.33% equity interest in Shanghai International Trust Investment Corporation.
- (6) 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 Int'l Holdings Ltd..
- (7) Apart from a direct holding of 228,000 shares in the Company, Ruentex Development Co., Ltd has an indirect interest in the Company through its 100% ownership in Ruentex Construction Int'l (BVI) Ltd..

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, 2006.

MAJOR CUSTOMERS AND SUPPLIERS

The Company's income is derived almost entirely from its investment returns and interest on bank deposits, therefore disclosure of information regarding customers would not be meaningful. The Company has no major suppliers requiring disclosure.

EMOLUMENT POLICY

The emolument policy of the employee of the Company is set up by the Remuneration Committee based on the employee's credential, qualification and competence.

The emoluments of the INEDs are decided by the Board of Directors, having regard to the Company's operating results, individual performance and comparable market statistics.

No emoluments are determined for the executive directors nor the non-executive directors of the Company.

PURCHASE, SALE OR REDEMPTION OF SHARES

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

PRE-EMPTIVE RIGHTS

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

MODEL CODE

During the year ended December 31, 2006, the Company has adopted the Model Code as set out in Appendix 10 of the Listing Rules as its code of conduct regarding Directors' securities transactions. The Company has made specific enquiry of all Directors regarding any non-compliance with the Model Code during the year ended December 31, 2006, and they have all confirmed their respective full compliance with the required standard set out in the Model Code.

AUDIT COMMITTEE

The Company's Audit Committee was established since 1999 and currently comprises Mr. Yick, Wing Fat Simon (Chairman), Mr. Ong, Ka Thai, Mr. Chen, Chi-chuan and Dr. Hua, Min, 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 to and duties of the Audit Committee. It convenes at least twice a year with the external auditors present 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 the management the internal controls and financial reporting matters. It has also reviewed the Company's annual results for the year ended December 31, 2006.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to and within the knowledge of the Directors, it is confirmed that there is sufficient public float of more than 25% of the Company's issued shares as at the date of this report.

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 21, 2007