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 "Corporate Information" section to this annual report.

The Company is an investment holding company.

The financial statements are presented in United States dollars ("US$") and the functional currency of the Company is Hong Kong dollars. The Company presents the financial statements in US$ because it is preferred by its investors.

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS

In the current year, the Company has applied, for the first time, a number of new and revised 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 December 1, 2005 or January 1, 2006. The adoption of the new HKFRSs has had no material effect on how the results and financial position for the current or prior accounting years are prepared and presented. Accordingly, no prior year adjustment has been required.

The Company has not early applied the following new standard, amendment or interpretations that have been issued but are not yet effective. The directors of the Company anticipate that the application of these standard, amendment or interpretations will have no material impact on the results and the financial position of the Company.

HKAS 1 (Amendment)	Capital disclosures[1]
HKFRS 7	Financial instruments: Disclosures[1]
HK(IFRIC) - INT 7	Applying the restatement approach under HKAS 29 Financial Reporting in Hyperinflationary Economies[2]
HK(IFRIC) - INT 8	Scope of HKFRS 2[3]
HK(IFRIC) - INT 9	Reassessment of embedded derivatives[4]
HK(IFRIC) - INT 10	Interim financial reporting and impairment[5]
HK(IFRIC) - INT 11	HKFRS 2 – Group and treasury share transactions[6]

1 Effective for annual periods beginning on or after January 1, 2007.
2 Effective for annual periods beginning on or after March 1, 2006.
3 Effective for annual periods beginning on or after May 1, 2006.
4 Effective for annual periods beginning on or after June 1, 2006.
5 Effective for annual periods beginning on or after November 1, 2006.
6 Effective for annual periods beginning on or after March 1, 2007.

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

Revenue is measured at the fair value of the consideration received or receivable.

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.

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, gains on realization or revaluation 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.

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

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.

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.

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

Financial assets *(Cont'd)*

Available-for-sale financial assets (Cont'd)

(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 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. Investment in unlisted securities which fair values cannot be reliably measured are stated 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.

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, consideration receivable from disposal of an unlisted investment 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.

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

Financial assets *(Cont'd)*

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. The accounting policies adopted in respect of financial liabilities and equity instruments are set out below.

Financial liability

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. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Company's major financial instruments include investments in listed and unlisted securities, consideration receivable from disposal of an unlisted investment and bank balances. 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 loans and 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.

4. 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 variable rate 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 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 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 provisions, if necessary, are made for irrecoverable amounts.

The consideration receivable from disposal of an unlisted investment is secured by the pledge of the disposed investment. 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.

5. INVESTMENT INCOME

	2006 US$	2005 US$
Investment income comprises:		
Dividend income		
– Listed securities	**189,185**	169,719
– Unlisted investments	**–**	566,277
Interest income	**445,848**	460,603
	635,033	1,196,599

6. 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 Region only.

7. 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.

8. DIRECTORS' EMOLUMENTS

Except for the directors' fee payable to the independent non–executive directors totalling US$38,602 (2005: US$38,646) which is within the band of nil to US$128,000, none of the directors has received any emoluments for both years.

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

	2006 US$	2005 US$
Ong, Ka Thai	**12,868**	12,882
Yick, Wing Fat Simon	**12,867**	12,882
Hua, Min	**12,867**	12,882
	38,602	38,646

9. OTHER ADMINISTRATIVE EXPENSES

	2006 US$	2005 US$
Other administrative expenses include the following:		
Auditors' remuneration	**21,034**	17,506
Custodian fee	**35,509**	47,903
Investment advisory fee	**–**	10,000
Staff costs	**48,098**	47,316
Retirement benefits costs	**5,094**	5,107

10. 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:

	2006		2005	
	US$	**%**	US$	%
Profit for the year	**1,112,830**		1,618,427	
Tax at Hong Kong Profits Tax rate	**194,745**	**17.5**	283,225	17.5
Tax effect of expenses that are not deductible for tax purposes	**121,253**	**10.9**	1,283,321	79.3
Tax effect of tax losses not recognized	**59,573**	**5.4**	–	–
Tax effect of income that is not assessable for tax purposes	**(375,571)**	**(33.8)**	(1,566,546)	(96.8)
Taxation for the year	**–**	**–**	–	–

At December 31, 2006, the Company has unused tax losses of approximately US$3,498,000 (2005: US$3,157,000) 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.

11. DIVIDENDS

	2006 US$	2005 US$
Final dividend paid – nil (2005: US$0.30 per share) per share	–	2,671,500
Special final dividend paid – US$1.20 per share (2005: US$1.20 per share) paid from the share premium account	**10,686,000**	10,686,000
	10,686,000	13,357,500

Subject to approval by shareholders at the Company's annual general meeting to be held on April 25, 2007, the Company proposes a special final dividend of US$0.50 per share payable from the share premium account, in cash for 2006. A total amount of US$4,452,500 will be paid on or before May 17, 2007.

12. EARNINGS PER SHARE – BASIC

The calculation of basic earnings per share is based on profit for the year of US$1,112,830 (2005: US$1,618,427) and on the number of 8,905,000 (2005: 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.

13. INVESTMENTS IN UNLISTED SECURITIES

	2006 US$	2005 US$
Investment cost	**8,743,600**	12,703,600
Less: Accumulated impairment	**(8,743,600)**	(8,743,600)
	–	3,960,000

At December 31, 2006, 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.

13. INVESTMENTS IN UNLISTED SECURITIES *(Cont'd)*

At the balance sheet date, the Company holds 20% or more 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 as it does not 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.

14. INVESTMENTS IN LISTED SECURITIES

	2006 US$	2005 US$
Listed securities, at fair value:		
Shares listed on Hong Kong Stock Exchange	**9,638,017**	8,570,216
Shares listed on Taiwan Stock Exchange	**–**	424,759
Non-tradable listed securities *(Note)*	**225,711**	2,429,196
	9,863,728	11,424,171

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.

Gain arising from fair value changes of investments in listed securities of US$1,579,220 (2005: loss arising from fair value changes of US$3,290,453) 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 in 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 date of listing (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.

15. INVESTMENT PROPERTY

	2006	2005
	US$	US$
Fair value:		
At January 1	**640,000**	567,000
Increase in fair value recognized in the income statement	**40,000**	73,000
At December 31	**680,000**	640,000

The fair value of the Company's investment property at December 31, 2006 had been arrived at on the basis of a valuation carried out on that date by Knight Frank Petty Limited, an independent qualified professional valuer not connected with the Company. Knight Frank 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.

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 investment property for the years ended December 31, 2005 and 2006.

16. OTHER FINANCIAL ASSETS

Dividend, interest and other receivables

The fair value of the Company's dividend and interest receivables at December 31, 2006 approximates to the corresponding carrying amount. The Company has no other receivables at December 31, 2006 (2005: US$125,000).

Consideration receivable from disposal of an unlisted investment

The fair value of the consideration receivable from disposal of an investment at December 31, 2006 approximates to the corresponding carrying amount.

Bank balances

Bank balances comprise short-term bank deposits which carries interest ranging from 2% to 5% per annum. The fair value of these assets at December 31, 2006 approximates to the corresponding carrying amount.

Included in the bank balances are the Renminbi short–term bank deposits equivalent to approximately US$680,297 (2005: US$892,123) kept in a financial institution registered in the PRC.

17. SHARE CAPITAL

	Number of ordinary shares of US$0.1 each	**Share capital** US$
Authorized:		
At January 1, 2005, December 31, 2005 and December 31, 2006	18,000,000	1,800,000
Issued and fully paid:		
At January 1, 2005, December 31, 2005 and December 31, 2006	8,905,000	890,500

18. 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, 2006 of US$27,716,655 (2005: US$35,922,657) and on the number of 8,905,000 (2005: 8,905,000) ordinary shares in issue as at December 31, 2006.

19. RELATED PARTY TRANSACTIONS

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

	2006 **US$**	2005 US$
Investment management and administration fees paid and payable to Shanghai International Asset Management (Hong Kong) Company Limited (the "Investment Manager")	**625,168**	1,727,700
Amount due to Investment Manager at balance sheet date	**148,394**	184,073

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

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