SHANGHAI INTERNATIONAL SHANGHAI GROWTH INVESTMENT LIMITED

(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 770)

Annual Report 2007

INVESTMENT MANAGER
SHANGHAI INTERNATIONAL ASSET MANAGEMENT (H.K.) CO., LTD.

SHANGHAI INTERNATIONAL SHANGHAI GROWTH INVESTMENT LIMITED

ANNUAL REPORT 2007 年報

Contents

CORPORATE INFORMATION

DIRECTORS

Executive Directors:
Dr. WANG Ching (appointed on July 1, 2007)
Mr. WU Bin (appointed on May 30, 2007)
Mr. WU Choi Sun William
(resigned on July 1, 2007)
Mr. XUE Wanxiang (resigned on May 30, 2007)

Independent Non-Executive Directors:
Dr. HUA Min
Mr. ONG Ka Thai
Mr. YICK Wing Fat Simon

Other Non-Executive Directors:
Mr. CAI Nongrui
Mr. CHEN Chi-chuan
Mr. LEE Tien-chieh
Mr. LIN Bin (appointed on March 22, 2007)
Mr. TSENG Ta-mon
Dr. WANG Changhong
Mr. CHIU Tak-Chiang (retired on April 25, 2007)
Mr. HU Jinggang (retired on April 25, 2007)
Mr. ZHOU Youdao (resigned on March 22, 2007)

COMPANY SECRETARY

Mr. LIANG Kwan Wah Andrew

INVESTMENT MANAGER

Shanghai International Asset
Management (H.K.) Co., Ltd.
23/F Two International Finance Center
8 Finance Street
Central, Hong Kong

Room 1203-4 Aetna Tower
107 Zun Yi Road
Shanghai 200051, China

LEGAL ADVISERS

In Hong Kong:
Charltons Solicitors & Notary Public

In the Cayman Islands:
Maples and Calder

AUDITORS

Deloitte Touche Tohmatsu
Certified Public Accountants

CUSTODIAN

State Street Bank and Trust Company

SHARE REGISTRARS AND TRANSFER OFFICE

Tricor Secretaries Limited
26/F Tesbury Centre
28 Queen's Road East
Hong Kong

REGISTERED OFFICE

Ugland House, P.O. Box 309
George Town, Grand Cayman
Cayman Islands

COMPANY'S WEBSITE

http://shanghaigrowth.etnet.com.hk

STOCK CODE

770

BOARD OF DIRECTORS' STATEMENT

The Board of Directors (the "Board") of Shanghai International Shanghai Growth Investment Limited (the "Company") is pleased to present the annual report of the Company and its subsidiaries (the "Group") for the year ended December 31, 2007.

REVIEW OF RESULTS

The Group recorded a net operating profit of US$4,263,977 for the year ended December 31, 2007, an increase of 283.2% year-on-year when compared with a net profit of US$1,112,830 in 2006. The increase was mainly attributable to substantial realized gains from sale of investments in listed securities. The Group received US$118,005 in dividend income (2006: US$189,185) and US$4,498,146 (2006: US$909,080) in realized gains on disposal of listed securities. As for unlisted investments, US$23,153 dividend income was recorded during the year and an interest income of US$58,712 was received on the remaining balance of outstanding payment due from the purchaser of an unlisted investment exited in 2006. At end of 2007, the Group succeeded in disposing of its investment property and recorded a realized gain of US$43,290 on the disposal.

The Group divested from all of its historical unlisted investments in 2006. The Company's Investment Manager, Shanghai International Asset Management (HK) Co., Ltd., paid much effort in 2007 seeking for new unlisted investment opportunities with attractive returns. The Group has secured two such unlisted investment projects during the second half of 2007, with a total investment cost of US$5,073,506. Details of the unlisted investments are set out on pages 12 to 16 of this report.

During the year under review, the Group's listed securities portfolio recorded a 36.5% gain, trailing slightly behind the 39% gain of the Hang Seng Index ("HSI"), but almost a 395% year-on-year growth in terms of realized gains upon disposal of listed securities.

In May 2007, the Company declared a special final dividend of US$0.50 per share for 2006. The Group's net asset value ("NAV") per share as at December 31, 2007 was US$3.03 after such dividend distribution, a 2.57% decrease compared with US$3.11 at the end of 2006 but a 13.5% improvement before payment of such dividend. As at the end of December 2007, the Company's share price was US$2.30 (2006: US$2.10), reflecting a 24.09% discount to NAV per share.

CHANGES IN DIRECTORSHIPS

Certain changes in the Company's directorships occurred during 2007. Mr. WU Choi Sun William and Mr. XUE Wanxiang resigned as executive directors on July 1, 2007 and May 30, 2007 respectively. Dr. WANG Ching and Mr. WU Bin were appointed as their replacement respectively. Please refer to pages 24 to 26 for details of their biographies.

Mr. ZHOU Youdao resigned as non-executive director on March 22, 2007 and Mr. LIN Bin was appointed in his place. Two directors, namely Mr. CHIU Tak-chiang and Mr. HU Jinggang, retired as directors by rotation at the Company's annual general meeting held on April 25, 2007 and did not seek for re-election.

The Board would like to express its appreciation to those directors who have resigned or retired for their valuable contributions to the Company during their tenure of office and welcomes the new appointees in joining the Board.

BOARD OF DIRECTORS' STATEMENT

LIQUIDITY, FINANCIAL RESOURCES, GEARING AND CAPITAL COMMITMENT

The Group's continued success in finding exit for invested projects and the sale of listed securities has resulted in a liquid position despite the US$4,452,500 dividend payout for 2006. After making new unlisted investments of US$5,073,506, the Group's cash position as of December 31, 2007 was US$12,262,048 (2006: US$14,843,855) of which approximately US$736,728 (2006: US$680,297) was held in RMB equivalent at a registered financial institution in China. RMB is not a freely convertible currency and it has appreciated by about 8% versus the US dollar during 2007. Heeding advice from the Board to seek better returns on cash management, the Group placed approximately US$2.8 million (2006: US$6.2 million) on deposit with Standard Chartered Bank, Hong Kong, a recognized sub-custodian bank of the Company's custodian, State Street Bank and Trust Company.

The Group had no bank borrowings at the end of December 2007 and 2006.

The Group had a capital commitment of US$2.6 million, authorized but not contracted for, at end of 2007 (2006: nil), which was subsequently paid in January 2008. In addition, the Company's Investment Committee has approved an unlisted investment, at a cost of US$5 million, in February 2008 and is expected to be injected by end of March 2008.

EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES AND RELATED HEDGES

Except for the RMB deposits, majority of the Group's assets are denominated in US dollars and Hong Kong dollars. As long as the Hong Kong dollar continues its peg to the US dollar in the foreseeable future, the Group does not anticipate any material exposure to exchange fluctuations. Accordingly, no hedging instruments were made nor transacted to cushion for such exposure.

The moderate appreciation of the RMB regime against the US dollar has a positive but negligible impact on the Group.

STAFF COSTS

Other than to retain a qualified accountant to comply with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), the Company has no other employee. The Company continues to delegate the day-to-day administration of its investment portfolio to its investment manager, Shanghai International Asset Management (Hong Kong) Company Limited (the "Investment Manager").

CORPORATE GOVERNANCE

The Group is committed to achieve sound standards of corporate governance practices. Throughout the year ended December 31, 2007, the Group has applied the principles and complied with all requirements set out in the code of Corporate Governance Practices contained in Appendix 14 of the Listing Rules. Please refer to the "Corporate Governance Report" set out in pages 17 to 21 of this annual report for detailed information.

BOARD OF DIRECTORS' STATEMENT

DIVIDENDS

Subject to shareholders approval at the Company's annual general meeting to be held on April 28, 2008, the Board recommends a special final dividend, to be paid from the share premium account, of US$0.20 per share payable in cash for 2007, representing approximately a 10% return on the market share price at the time of announcing such dividend. If approved, distribution of such dividend will be paid on or before May 28, 2007 to shareholders whose names appear on the Company's Register of Members on April 17, 2008.

CLOSING OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from April 18, 2008 to April 28, 2008, both days inclusive, during which period no transfer of shares will be registered. In order to qualify for the above dividend, all transfers accompanied by the relevant share certificates must be lodged with the Registrars of the Company, Tricor Secretaries Limited, for registration no later than 4:00 p.m. on April 17, 2008.

OUTLOOK FOR 2008

The Investment Manager has been actively exploring new unlisted investment projects with potentially higher returns or pre-IPO investment opportunities. The investment strategy primarily focuses on industries such as information technology, consumables, infrastructure-related, resources and environmental protection. By the end of 2007, the Company has invested in two new unlisted investments in health care consumables and hot-rolled galvanized steel. There are a number of good investment projects currently under in-depth due diligence review, two of which, amounting to US$7.6 million and both targeting for listing in the coming 2-3 years, have been confirmed in January and March 2008. The Investment Manager and the Company will continue to direct their resources in identifying and analysing investment projects either with promising investment returns via public listing or other exit alternatives. Besides, the Investment Manager will continue its close monitoring of the management and operations of the invested projects.

On the listed investment side, general consensus from most analysts and traders have suggested that the Hong Kong market will be much more volatile than in the past year but overall it will perform steadily in 2008 due to sound economic fundamentals, anticipation in economic growth and the Beijing Olympics effect. Although the Company's outlook for 2008 remains optimistic, it will remain vigilant to any changes in China's macro policy and measures, with particular caution in stock market movements.

Looking forward, the Company believes that Hong Kong's inflation rate will become higher, due to the hike in raw materials and food prices in China. The negative interest rate environment (that is the inflation rate being higher than banks' deposit rate) will further boost Hong Kong's property market and other active investments. It is anticipated that the RMB will face greater pressure of appreciation when the interest rate gap between RMB and US dollar gets wider. Nevertheless, we hold a view that Hong Kong's competitiveness will remain strong among the region because of the weak US dollar.

For and on behalf of the Board
WANG Ching
Executive Director

Hong Kong, March 19, 2008

MANAGEMENT DISCUSSION AND ANALYSIS

ECONOMIC REVIEW

China Economy

China's major economic indicators are set forth below:

Growth (year-on-year, per cent.)	2006	**1H 2007**	**2007**
Gross domestic product ("GDP")	11.1	**11.5**	**11.4**
Value added industrial output	16.6	**18.5**	**18.5**
Retail sales	13.7	**15.4**	**16.8**
Consumer price index ("CPI")	1.5	**3.0**	**4.8**
Fixed asset investments ("FAI")	23.9	**25.6**	**24.8**
Actual foreign direct investments	4.5	**11.9**	**13.6**
Exports	27.2	**27.6**	**25.7**
Imports	20.0	**18.2**	**20.8**
Trade surplus (US$ billion)	177.5	**112.5**	**262.2**
Foreign exchange reserve (US$ billion)	1,066.3	**1,267.3**	**1,528.2**

Source: Published information

In 2007, the China economy maintained a steady and rapid growth. GDP for the year was RMB24,661.9 billion, up by 11.4%, or 0.3% percentage point higher than that in the previous year, representing the fifth successive year of over 10% annual growth. Growth in the second half however was slower than the first and that may have been a result of the recent price curbing measures from the Chinese government.

During the year, total investment in fixed assets reached RMB13,723.9 billion, a year-on-year growth of 24.8%, with an increase of 0.9% percentage point over the previous year. However, the growth in urban areas was slower than forecasted, another sign that government measures on lending curbs has started to cool the economy.

As for retail sales, it reached RMB8,921.0 billion in 2007, a growth of 16.8% over the previous year. Rising domestic demand will in part help buffer the economy against the US-led global slowdown.

The growth in Consumer Price Index ("CPI") was 4.8% in 2007, which was 3.3 percentage points higher than that in the previous year. CPI went up by 4.5% in urban areas and up by 5.4% in rural areas. Increased prices for food and housing were the main factors to drive up the overall price level. In terms of categories, prices for food went up by 12.3%, poultry and related products by 31.7%; and that of eggs grew by 21.8%. However, inflationary pressures may ease in the second half of 2008 due to the following reasons: 1) pork supply may catch up with demand, 2) deceleration in money supply and 3) as exports may slow down, some goods may be sold domestically and thus increase domestic supply.

The value of exports was US$1,218 billion, up 25.7%; and the value of imports was US$955.8 billion, up 20.8% giving a net trade surplus of US$262.2 billion, an increase of US$84.7 billion over that in 2006. The trade surplus may narrow as external demand may slow further. As a result, excess liquidity, the root of an overheating economy in China, may ease.

MANAGEMENT DISCUSSION AND ANALYSIS

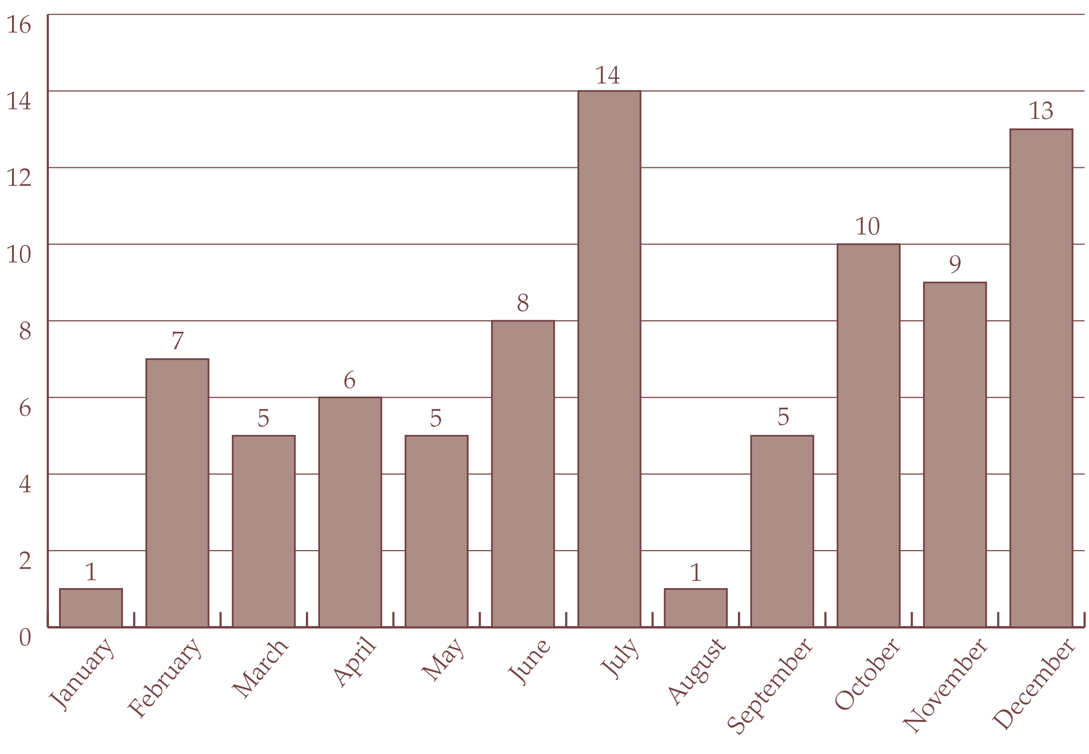
ECONOMIC REVIEW *(Cont'd)*

Hong Kong equity market

Hong Kong's economy has benefited greatly from China in 2007. China's strong economic growth has led Hong Kong to strengthen its position as a major financial center in Asia. The total market capitalization of the Hong Kong stock exchange's Main Board reached HK$20,697.5 billion on the last trading day of 2007. China-related companies achieved a market capitalization of HK$10,570.9 billion equivalent to 51% of the total Hong Kong market capitalization. H-shares and Red-chips companies contributed nearly 63% turnover of the market volume.

In 2007, a total of 84 companies were newly listed in Hong Kong (Main and Growth Enterprise Market Boards), raising approximately a total of HK$290.4 billion. Hong Kong is still the gateway to China and a conduit for capital raising for China-related companies.

Number of IPOs in 2007



Data source: HKEX

MANAGEMENT DISCUSSION AND ANALYSIS

ECONOMIC REVIEW *(Cont'd)*

On the interest rate front, Hong Kong did not follow the US in interest rate cuts as the Hong Kong banking system could still stand firm on its own without being significantly influenced by the US sub-prime crisis and credit crunch as much as other countries. However, resulting partially from the effect of inflated prices of pork, beef and chicken in China and other price appreciation of raw materials, Hong Kong's CPI rose rapidly during 2007; CPI in December 2007 recorded a growth of 3.8% year-on-year.

The long-discussed investment through-train pilot program ("through-train") has brought larger volatility into Hong Kong's equity market. The market reacted to the rumor and drove the HSI to its historical peak of 31,958 points on October 30, 2007. After thorough consideration, China decided to put the through-train program on hold and no timetable was given at this stage, leaving the implementation date for the trough-train to remain uncertain.

Later in the year, the market's focus shifted to the future of the US economy when the sub-prime loan crisis widened. As many financial institutions had invested in US collateralized debt obligations and mortgage-backed securities, they were unable to obtain further funding from banks in Europe and the US because of the resultant credit crunch. Hence many investment funds and institutions rushed into liquidating such assets incurring losses. Global equity markets plunged in November with news of profit warnings from banks like Citigroup, UBS, BNP, Merrill Lynch, etc. Even banks like HSBC suffered financially by writing off some of its sub-prime investments.

LISTED INVESTMENTS REVIEW

Since Hong Kong's equity market is influenced largely by both China's and US's economy, the market has become more volatile than ever before and intra-day trading range widened. Concerns that the US economy will possibly enter into a recession has made investors more cautious and risk aware. In addition, the Chinese authority adopted monetary policies to cool down the already overheated economy. HSI closed at 27,813 points on the last trading day of the 2007, a 13% drop from its peak. But the closing level is still a 39% increase year-on-year, and a consecutive rise for the fifth year.

During the year under review, the Group's listed securities portfolio recorded a 36.5% gain, trailing slightly behind the 39% gain of the HSI, but almost a 395% year-on-year growth in terms of realized gains upon disposal of listed securities.

MANAGEMENT DISCUSSION AND ANALYSIS

LISTED INVESTMENTS REVIEW *(Cont'd)*

LISTED SECURITIES PORTFOLIO

As at December 31, 2007

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 Construction Bank Corp. – H shares	Banking and related financial services	1,300,000	0.0006	906,335	1,101,547	4.08	24,104
China Life Insurance Co. Ltd. – H shares	Insurance and related products	200,000	0.0027	704,348	1,034,503	3.83	5,485
China Mengniu Dairy Co. Ltd.	Manufacture dairy products	200,000	0.0140	666,848	733,253	2.71	–
China Merchants Bank Ltd. – H shares	Banking and related financial services	200,000	0.0075	880,839	816,578	3.02	–
China Mobile Ltd.	Telecommunication and related services	70,000	0.0003	637,087	1,237,429	4.58	11,478
China Overseas Land and Investment Ltd.	Real estate development and management	300,000	0.0039	471,569	619,932	2.30	1,926
PetroChina Co Ltd. – H shares	Oil and petroleum	500,000	0.0024	347,335	890,929	3.30	35,114
Ping An Insurance Group Co. of China Ltd. – H shares	Insurance and related products	80,000	0.0031	916,744	858,368	3.18	–
Semiconductor Manufacturing International Corporation ("SMIC") *	Fabricate semiconductors for integrated circuits design	15,394,540	0.0829	1,717,401	1,618,224	5.99	–
Shun Tak Holdings Ltd.	Property development, transportation, hospitality and investment	200,000	0.0086	297,982	314,325	1.16	–
Total				7,546,488	9,225,088	34.15	78,107
Other listed securities				576,181	507,021	1.88	39,898
Total investment in listed securities				8,122,669	9,732,109	36.03	118,005

* *As at December 31, 2007, all the shares held in SMIC have become fully tradable. Details of this investment are set out in note 15 to the financial statements.*

MANAGEMENT DISCUSSION AND ANALYSIS

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 or 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 15 to the financial statements.*

MANAGEMENT DISCUSSION AND ANALYSIS

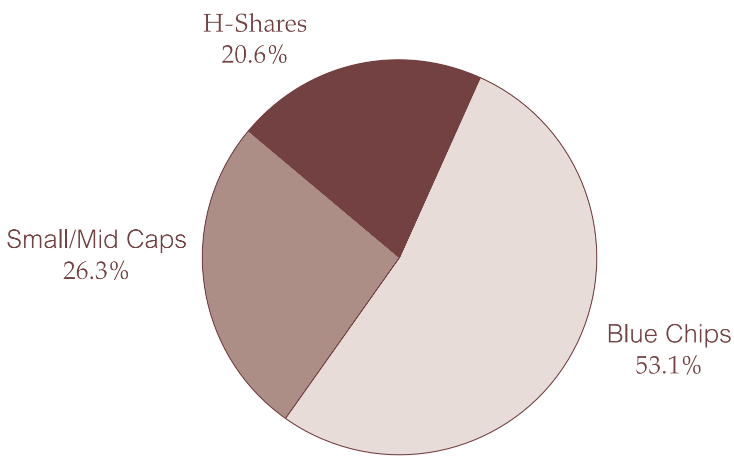
LISTED INVESTMENTS REVIEW *(Cont'd)*

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 Group 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, 2007, 15,394,540 shares in SMIC were held by the Group, all of which were freely tradable after the release of the last batch of lock-up shares on February 25, 2007. The Group has since registered a net gain of approximately US$3.5 million or 59% in respect of partial sale and continuous holding of this listed investment.

Listed Securities Portfolio Allocation



Investment Allocation

	December 31, 2007	December 31, 2006
Unlisted investments	**19%**	–
Listed investments	**36%**	36%
Investment property	**–**	3%
Consideration receivables*	**–**	8%
Cash and cash equivalents	**45%**	53%
Total	**100%**	100%

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

MANAGEMENT DISCUSSION AND ANALYSIS

UNLISTED INVESTMENTS REVIEW

In 2007, fast appreciation of the RMB led China's capital assets into a revaluation process. Robust domestic consumption coupled with the A-shares restructuring effect drove China's capital market to a trend of sustained growth. Sentiment was optimistic in the first half of the year. According to the China Venture Capital Statistics Report 2007, China recorded a total venture capital investment of US$3.18 billion in the first eleven months of 2007, which was 78.9% higher than the full 2006 year. The number of investments also increased from 324 to 428, or a 32.1% increase. Apart from overseas listings, the SME Board of the Shenzhen stock exchange has now become another popular exit for foreign-invested entities.

Following the Company's exit from all of its historical unlisted investments in 2006, its Investment Manager actively screened new investment projects and visited numerous companies throughout 2007 with potentially good returns. After prudent and thorough evaluations, the Group finally decided to invest in two enterprises: one that produces high-end health care products and another that produces hot-rolled galvanized steel, with a total investment of US$5,073,506.

In January and March 2008, the Company continued its success in investing in two Chinese enterprises: (i) a leading online game platform service provider, with integrated platform encompassing media, entertainment, on-line game, anti-virus, advertising and discussion forum services; and (ii) a B2B trading platform service provider promoting China and international trades, integrated with logistics businesses.

Progress highlights

- Shanghai Well Bright Foods Company Limited – The Group has received payments for the second and third installments of share sales in March and September 2007 respectively, thus completed such share sales transaction and recorded a total return of 128%.

- Investment Property – House 52, Rose Garden, located in Shanghai, was sold in October 2007 and recorded a realized gain of US$43,290.

- In September 2007, the Company invested HK$20,000,000 (equivalent to approximately US$2,573,506) into Raffles International Investment Limited, a special purpose investment vehicle through which the Company indirectly invested in Wuxi Ruinian Enterprise Company Limited, a high-end health care products producer.

- In November 2007, the Company invested US$2,500,000 into China Material Technology Limited, the parent company of South Polar Lights Steel (Shanghai) Company Limited, which is engaged in the production of hot-rolled galvanized steel.

MANAGEMENT DISCUSSION AND ANALYSIS

UNLISTED INVESTMENTS REVIEW *(Cont'd)*

UNLISTED INVESTMENTS PORTFOLIO

As at December 31, 2007

Invested projects	Nature of business	% of equity interest	Amount invested at cost US$	Share of results US$	Carrying value of investment at 31.12.2007 US$	% of net asset value	Dividend income US$	Accumulated dividend income US$
Interest in an associate								
Raffles International Investment Limited[1]	Investment holding	22.73	2,573,506	(205)	2,573,301	9.53	–	–

Invested projects	Nature of business	% of equity interest	Amount invested at cost US$	Impairment US$	Carrying value of investment at 31.12.2007 US$	% of net asset value	Dividend income US$	Accumulated dividend income US$
Investment in unlisted securities								
China Material Technology Limited[2]	Investment holding	4.31	2,500,000	–	2,500,000	9.25	–	–
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)	–	–	–	–
			11,243,600	(8,743,600)	2,500,000	9.25	–	2,080,520

Notes:

(1) *An investment holding company that ultimately acquires 9.69% equity interest in an enterprise which is engaged in the production and distribution of high-end health care products.*

(2) *An investment holding company that directly invests in 4.31% equity interest in an enterprise which is engaged in production and distribution of galvanized steel.*

MANAGEMENT DISCUSSION AND ANALYSIS

UNLISTED INVESTMENTS REVIEW *(Cont'd)*

UNLISTED INVESTMENTS PORTFOLIO

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 31.12.2005 US$	% of net asset value	Dividend income US$	Accumulated dividend income US$
Investment in unlisted securities								
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.

DIVESTMENTS

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

On October 5, 2006, Guardian Investment Growth Limited ("Guardian"), the Company's wholly-owned offshore special purpose vehicle, sold its entire holdings of Well Bright, received the first payment of US$2,250,000 on the same day, the second payment of US$1,150,000 with accrued interest of US$58,712 on March 31, 2007 and the final payment of US$ 1,160,000 and accrued interest of US$29,322 on September 29, 2007. All of these proceeds and interests were transferred back to the Company by means of capital reduction in and dividend payout by Guardian. The share sales transaction in Well Bright was completed in October 2007 and a total return of 128% was recorded.

Investment Property – House 52, Rose Garden

The Company acquired an investment property for rental income purpose located at House 52 Rose Garden (the "Investment Property") in Shanghai since 1994. In August 2007, the Investment Manager, through a real estate agent, had identified a buyer for the Investment Property and finally concluded a sales contract at a consideration of RMB6,080,000 in October 2007. After deducting all relevant taxes and transaction costs in the PRC, the Company received net proceeds of RMB5,298,960 (equivalent to US$724,883) and upon approval from State Administration of Foreign Exchange Bureau before the end of 2007, the proceeds were remitted in hard currency to the Company's custodian account on January 4, 2008. After deducting relevant professional fees, net proceeds on disposal were US$723,290.

The fair value of the Investment Property at the end of 2006 was US$680,000, the Company has since recorded a realized gain of US$43,290 on its disposal.

MANAGEMENT DISCUSSION AND ANALYSIS

UNLISTED INVESTMENTS REVIEW *(Cont'd)*

NEW INVESTMENTS IN 2007

Raffles International Investment Ltd. ("Raffles")

In September 2007, the Company subscribed for a 22.73% equity interest in Raffles for a consideration of HK$20 million, equivalent to approximately US$2,573,506. Raffles is a single purpose investment vehicle in raising HK$88 million for the purchase of a 10.48% equity share in Tongrui Holding Limited ("Tongrui").

Tongrui, an investment holding company incorporated in the British Virgin Islands, wholly-owns Wuxi Ruinian Enterprise Company Limited ("Wuxi Ruinian"), a health care products manufacturer registered in the Mainland. Wuxi Ruinian has a long history in the PRC health care industry and was one of the first companies that was granted GMP license in China to manufacture high-end modern health care products. Its "Ruinian" brand has been awarded "Jiangsu Province Renowned Brand" and its prime product – Amino Instant (tablet) captures almost 70% of the PRC market share. Besides, Wuxi Ruinian has launched various new products to further strengthen its market share. It is believed that Wuxi Ruinian can achieve steadfast growth in its future profits in light of the buoyant China economy and consumer market. Wuxi Ruinian has recorded an unaudited net profit of RMB140 million for 2007.

After a further tranche of capital fund raising, up to January 2008, Raffles' equity interests in Tongrui was diluted to 8.64%. The Tongrui group is headed for an IPO in 2008.

China Material Technology Limited ("CMT")

In November 2007, the Company entered into a subscription agreement to subscribe for 4.31% share of CMT, for a total consideration of US$2,500,000.

CMT, a company incorporated in the Cayman Islands in 2007, is currently holding a 100% stake in South Polar Lights Steel (Shanghai) Company Limited ("SPLS"). SPLS is a PRC registered company which is engaged in the production of galvanized steel, with its business in the region of Baoshan, Shanghai, a core region for producing, distributing and trading steel in Eastern China. SPLS commenced its production of hot-rolled galvanized steel in December 2007 right after the completion of first round fund raising of US$16 million. Current production capacity is enhanced with assured product quality.

SPLS's first stage annual production capacity is 300,000 tons of hot-rolled galvanized steel and 600,000 tons of pickling rolls. Its first-stage products focused on the market-dominated hot-rolled galvanized steel (1.5mm – 4.5mm).

Led by an experienced sales team and management from Taiwan and given that a number of sales contracts were concluded in 2007, SPLS is expected to move into full production capacity in 2008. As competition in the thick hot-rolled galvanized steel market is less intensive and with room for sustained growth, the Company expects to see considerable growth in earnings of SPLS in the next few years.

MANAGEMENT DISCUSSION AND ANALYSIS

UNLISTED INVESTMENTS REVIEW *(Cont'd)*

NEW INVESTMENTS IN 2008

Grandpro Technology Limited ("Grandpro")

In January 2008, the Company subscribed for 260 Preference Shares in Grandpro for a consideration of US$2,600,000, representing approximately a 2% equity stake.

Grandpro was incorporated in the British Virgin Islands as a limited liability company in 2004. Its wholly-owned subsidiary, Grandpro Information Technology (Shanghai) Company Limited ("GITS"), and another entity Shanghai Holdfast Online Information Technology Co., Ltd. ("Holdfast"), are collectively referred to as the "Haofang Group". Both companies are registered in the PRC with their main operations in Pudong, Shanghai.

Haofang Group is principally engaged in the development and operation of online game platform, Computer Game Arena or "CGA" platform, and other related businesses in the PRC including but not limited to online advertising sales. Holdfast has developed a registered membership of 140 million users and achieved a record 640,000 Peak Concurrent Users (PCU). Grandpro's mission is to develop from its core electronic games platform to become an integrated Internet platform encompassing media, entertainment, on-line game, anti-virus, advertising and discussion forum services.

The Group have negotiated for a put option to exercise full redemption of their Preference Shares if certain conditions are not consummated by Grandpro or Haofang Group by the end of 2010. Shanda Interactive Entertainment Limited, the majority shareholder of Haofang Group and which is listed on NASDAQ, has given a guarantee in relation to this put option.

Global Market Group Limited ("GMG")

In February 2008, the Company's investment committee approved an investment contract to invest US$5,000,000 for a maximum of 7.8% equity interest in GMG; such percentage equity holding may be adjusted subject to GMG's audited net profits generated in 2008 and 2009 respectively.

GMG is a leading B2B internet trading service provider in the PRC. It focuses on providing an international trade information platform for high-end quality export manufacturers in China and international buyers. Its B2B internet trading platform provides an efficient channel in promoting international trades and trade shows, which operation mode is similar to the newly listed company in Hong Kong – Alibaba, with high quality and scaled up small to medium export manufacturers as its major client base. Besides, GMG has established its core competence in developing a unique certification standard – Global Manufacturer Certificate, which provides a confidence level to international trade buyers in identifying reliable and good quality export manufacturers in China.

Apart from B2B trading platform, GMG extends its business to international logistics business by providing a complete range of services including freight forwarding, transport insurance and customs declaration services. GMG is expected to benefit from the full synergy effect between the B2B and third party logistics businesses. To ride on the continuous growth of PRC's export logistics business, GMG will set up a third party logistics internet trading platform to enhance logistics transactions.

GMG has a plan to go for public listing in Hong Kong or NASDAQ in 2009.

CORPORATE GOVERNANCE REPORT

The Board is committed to maintain sound corporate governance standard and procedures to ensure integrity, transparency and quality of disclosure to promote the ongoing development of the long term best interests of the Company and to enhance value for all its shareholders.

CORPORATE GOVERNANCE PRACTICES

As from January 1, 2005, the new Code on Corporate Governance Practices (the "CG Code") issued by the Stock Exchange of Hong Kong Limited (the "Stock Exchange") became effective for accounting periods commencing on or after that date. The Board has reviewed the CG Code and has adopted the same as the Company's own code of corporate governance practices. During the financial year ended December 31, 2007, the Company has complied with all of the provisions under the CG Code.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") as its code of conduct regarding Directors' securities transactions.

The Company has made specific enquiry of all Directors of any non-compliance with the Model Code during the financial year ended December 31, 2007, and they have all confirmed their full compliance with the required standard as set out in the Model Code.

INTERNAL CONTROL REVIEW

The Company's system of internal control was reviewed and reported to the Board by BDO McCabe Co. Ltd. in the second half of 2006. In compliance with the Listing Rules, the Board continued to discuss the report in early 2007 and conducted a further review of the Company's internal control in the second half of 2007 and concluded that the management of the Company and that of Shanghai International Asset Management (Hong Kong) Company Limited (the "Investment Manager") have generally followed the internal policies and guidelines that have been laid down by the Board.

BOARD OF DIRECTORS

The Board has overall responsibility for the stewardship of the Company, which includes the adoption of long term corporate strategies, assessment of investment projects, supervision of the management to ensure that the Company's operations are conducted in accordance with the objectives of the Company, and in reviewing financial performance. The Company's investment portfolio and daily operations are managed by the Company's Investment Manager pursuant to the terms and conditions of an investment management and administration agreement (the "Investment Management Agreement") signed between the Company and the Investment Manager, details of which are set out on pages 27 to 28 under the heading " Investment Management and Administration Agreement and Continuing Connected Transactions".

CORPORATE GOVERNANCE REPORT

BOARD OF DIRECTORS *(Cont'd)*

Composition

The Board comprises eleven Directors, two of whom are executive Directors, six are non-executive Directors and three are independent non-executive Directors ("INEDs"). There is no designated Chairman of the Board. The Directors are, collectively and individually, aware of their responsibilities to the shareholders. The Directors' respective biographical information is set out on pages 24 to 26 under the heading "Biographical Details of Directors".

The Board held six Board meetings during the 2007 financial year. Appropriate and sufficient information were provided to Board members in a timely manner to keep them abreast of the Company's latest developments in assisting them to discharge their duties. Attendance of individual Directors at Board meetings during the year ended December 31, 2007 was:

Number of meetings held			Six (6)
Name of Director	**Attendance**	**Name of Director**	**Attendance**
Dr. WANG Ching (appointed on July 1, 2007)	3/3	Mr. CHEN Chi-chuan	6/6
Mr. WU Choi Sun William (resigned on July 1, 2007)	3/3	Mr. LEE Tien-chieh	6/6
Mr. WU Bin (appointed on May 30, 2007)	4/4	Mr. LIN Bin (appointed on March 22, 2007)	3/4
Dr. XUE Wanxiang (resigned on May 30, 2007)	2/2	Mr. TSENG Ta-mon	5/6
Dr. HUA Min	6/6	Dr. WANG Changhong	6/6
Mr. ONG Ka Thai	6/6	Mr. ZHOU Youdao (resigned on March 22, 2007)	0/1
Mr. YICK Wing Fat Simon	6/6	Mr. CHIU Tak Chiang (retired on April 25, 2007)	0/1
Mr. CAI Nongrui	6/6	Mr. HU Jinggang (retired on April 25, 2007)	1/1

As at December 31, 2007, certain Directors of the Company, namely Dr. WANG Ching, Mr. WU Bin, Mr. CAI Nongrui, Mr. CHEN Chi-chuan and Mr. LIN Bin are also directors of the Company's Investment Manager. Certain Directors of the Company, namely Mr. CHEN Chi-chuan, Mr. LEE Tien-chieh and Mr. TSENG Ta-mon, are also directors of the Ruentex Group of companies, a group of corporate entities based in Taiwan, some of which are substantial shareholders of the Company as at December 31, 2007. Details of such relationships are set out on pages 29 to 30 under the heading "Substantial Shareholders".

Save as disclosed above, to the best knowledge of the Company, there is no financial, business or family relationship among members of the Board as at December 31, 2007. All of them are free to exercise their individual judgment.

BOARD OF DIRECTORS *(Cont'd)*

Retirement and re-election of Directors

1. Any Director appointed by the Board, either to fill a vacancy or as an addition, shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election by ordinary resolution.

2. At such annual general meeting, one-third of the Directors for the time being (or, if their number is not a multiple of three, the number nearest to but not greater than one-third) shall retire from office by rotation.

3. The Directors to retire by rotation shall include any Director who wishes to retire and does not offer himself for re-election.

4. Further Directors to retire shall be those having been in office the longest since their last re-election of appointment and subject to retirement by rotation.

Independent Non-Executive Directors

Each of the INEDs has filed a written confirmation to the Company confirming their independence and has undertaken to inform the Stock Exchange as soon as practicable if there is any subsequent change in circumstances which may affect their independence. Each of the INEDs has entered into respective service contracts with the Company for a term of two years with specific terms of reference and remunerated at HK$100,000 per year. No other Directors have service contracts with the Company or received remuneration from the Company.

NOMINATION PROCEDURES AND CRITERIA

The Company has yet to appoint a Nomination Committee, the establishment of which is a recommended best practice by the Stock Exchange.

Current practice to appoint new directors is that all valid nomination of candidates, accompanied with details of their biographical backgrounds, for directorships in the Company would be presented to the Board for consideration as soon as practicable. Consideration would be given to factors such as the candidate's integrity, experience and qualifications relevant to the Company's business. It is believed that members of the Board collectively would have the required professional knowledge and skills to identify, recruit and evaluate qualifications of nominated candidates for directorship.

BOARD COMMITTEES

The Board has delegated specific responsibilities and duties to the following committees to ensure the Company's best corporate governance practices:

AUDIT COMMITTEE

Composition

The Company has established an Audit Committee since 1999 with its written terms of reference formulated in accordance with the requirements of the Listing Rules. The Audit Committee consists of all three INEDs and one non-executive Director. Two meetings were held during the 2007 financial year. Members of the Audit Committee for the year ended December 31, 2007 and their respective attendance at such meetings was:

Number of meetings held			Two (2)
Name of Director	**Attendance**	**Name of Director**	**Attendance**
Mr. YICK Wing Fat Simon *(Chairman)*	2/2	Dr. HUA Min	2/2
Mr. ONG Ka Thai	2/2	Mr. CHEN Chi-chuan	2/2

Role and Function

Primary duties of the Audit Committee are to ensure the accuracy, completeness, objectivity and credibility of the Company's financial reporting and internal control procedures.

The Audit Committee is to review the Company's interim and annual financial statements and to make recommendations for the approval of such interim and annual financial statements by the Board. External auditors were present in all Audit Committee meetings and participated in discussions as to the adequacy and effectiveness of the Company's internal control and management information system. Members of the Audit Committee have complete and unrestricted access to the external auditors and senior staff of the Company for information.

During 2007, 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 during the year 2007. It has also reviewed the half-year results for the period ended June 30, 2007 and the annual results for the year ended December 31, 2007 of the Company before their respective announcements.

REMUNERATION COMMITTEE

Composition

The Company formulated written terms of reference for its Remuneration Committee conforming to requirements of the Listing Rules. The Remuneration Committee consists of all three INEDs and the two executive Directors, namely Mr. ONG Ka Thai *(Chairman)*, Mr. YICK Wing Fat Simon, Dr. HUA Min, Dr. WANG Ching and Mr. WU Bin. One meeting was held during the 2007 and all members were present, to review the remuneration package of the Company's employee by reference to market comparables. In 2005, the Remuneration Committee has reviewed current remuneration policies of the Company that the INEDs are remunerated by reference to market comparables and no remuneration is determined for executive Directors and other non-executive Directors.

REMUNERATION COMMITTEE *(Cont'd)*

Role and Function

The Remuneration Committee is to ensure formal and transparent procedures to develop remuneration policies and to oversee remuneration packages of the Company's Directors. It takes into consideration such factors like salaries and compensation packages paid by comparable companies, time commitment and responsibilities required of Directors. Its function also encompasses examination of the appropriateness of emoluments offered to individuals concerned for their duties and performance and whether such emoluments are competitive and conducive to retain the services of such individuals.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibilities for the preparation of the financial statements of the Company and ensure that they are prepared in accordance with statutory requirements and applicable accounting standards. The Directors also ensure the timely publication of such financial statements.

The statement of the external auditor of the Company, Messrs. Deloitte Touche Tohmatsu, with regard to their reporting responsibilities on the Company's financial statements, is set out in the Independent Auditor's Report on pages 32 to 33.

The Directors confirm that, to the best of their knowledge, having made all reasonable enquiries, they are not aware of any material uncertainties relating to events or conditions which may cause the Company not to continue as a going concern.

AUDITOR'S REMUNERATION

For the year ended December 31, 2007, services provided to the Company by its external auditor, Deloitte Touche Tohmatsu, and the respective fees paid were:

	2007
	US$
Audit services	**20,959**
Special review services	**10,235**
Taxation compliance and other services	**2,375**
	33,569

The Company also appointed other external auditors to perform special review on its investment in unlisted securities as part of the Company's interim review and annual audit procedure.

DIRECTORS' REPORT

The Directors present their annual report and the audited financial statements for the year ended December 31, 2007.

PRINCIPAL ACTIVITIES

The Company is an investment company, the principal business of which 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 potential investments 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, 2007 are set out in the consolidated income statement on page 34.

The Board proposes the payment of a special final dividend of US$0.20 per share in cash from the Company's share premium account for 2007 to shareholders on its register of members on April 17, 2008, amounting to US$1,781,000.

SHARE CAPITAL

Details of the share capital of the Company are set out in note 18 to the financial statements.

DISTRIBUTABLE RESERVES

The Company's reserves available for distribution to shareholders as at December 31, 2007 were as follows:

	2007	2006
	US$	*US$*
Share premium	**26,314,935**	30,767,435
Accumulated losses	**(519,931)**	(242,472)
Capital reserve	**327,462**	(3,698,808)
	26,122,466	26,826,155

Under the Company Law (Revised) Chapter 22 of the 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, 2007 are set out on pages 9 and 13 respectively.

DIRECTORS

The Directors of the Company during the year and up to the date of this report were:

Executive Directors:

Dr. WANG Ching	(appointed on July 1, 2007)
Mr. WU Bin	(appointed on May 30, 2007)
Mr. WU Choi Sun, William	(resigned on July 1, 2007)
Dr. XUE Wanxiang	(resigned on May 30, 2007)

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. LEE Tien-chieh	
Mr. TSENG Ta-mon	
Dr. WANG Changhong	
Mr. LIN Bin	(appointed on March 22, 2007)
Mr. ZHOU Youdao	(resigned on March 22, 2007)
Mr. CHIU Tak-chiang (also known as YAU Tak Chiang)	(retired on April 25, 2007)
Mr. HU Jinggang	(retired on April 25, 2007)

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. WANG Ching, Mr. WU Bin, Dr. HUA Min, Mr. LEE Tien-chieh, Mr. TSENG Ta-mon and Dr. WANG Changhong will retire as directors in accordance with Article 93, 98(b) and 98(c) of the Company's Articles and pursuant to Appendix 14 of the Listing Rules, all of these retiring directors, being eligible, offer themselves for re-election. All other remaining directors continue in office.

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.

DIRECTORS' REPORT

BIOGRAPHICAL DETAILS OF DIRECTORS

RC-Remuneration Committee
AC-Audit Committee

WANG Ching *(RC)*

Aged 53, was appointed as an Executive Director of the Company and the Managing Director of Shanghai International Asset Management (Hong Kong) company Limited (the "Investment Manager") in July 2007. Dr. Wang has over 15 years' managerial experience in investment banking, securities, treasury and fund management sectors in the United States, Taiwan, Hong Kong and the PRC, with a wealth of experience in the securities and venture capital industries.

Prior to joining the Company, Dr. Wang was the Chief Executive of Investment and Proprietary Trading Group of Jih Sun Financial Holding Company Limited of Taiwan and Managing Director of JS Cresvale International Securities Limited in Hong Kong from 2003 to 2006. He was the Managing Director of SinoPac Securities (Asia) Limited in Hong Kong from 2001 to 2003. Dr. Wang was also a senior manager and a director of the Investment Banking Division of Standard Chartered Bank from 1996 to 1998. When he was with Jih Sun Securities Co., Ltd. in Taiwan since 1998, he was responsible for establishing its fund management business in Hong Kong and raised a private equity fund and two venture capital funds in 1999. Dr. Wang has been an INED of Minth Group Limited since December 2005, a company listed on the Stock Exchange.

Dr. Wang received his baccalaureate degree majoring in Economics from the National Taiwan University in 1977. He obtained his Master of Business Administration from the University of Houston in 1985 and was conferred the doctorate in Finance from Columbia University in 1992.

WU Bin *(RC)*

Aged 34, was appointed as an Executive Director of the Company and Deputy Managing Director of the Investment Manager in May 2007.

Prior to joining the Company, Mr. Wu was the Assistant General Manager of Center for International Business Management with Shanghai International Group Co., Ltd. ("SIG"). Before that, he had been the Assistant General Manager of Investment Banking Department with Shanghai International Trust & Investment Co., Ltd. ("SITICO") since 2004, which is a subsidiary financial company of SIG. From 1996 to 2004, he had been a senior officer with The Sanwa Bank Limited and a deputy manager with Bohai Securities Co., Ltd. Mr. Wu has over 10 years' managerial experience in banking, securities and trust investment sectors in PRC.

Mr. Wu holds an MBA degree in Finance from Shanghai Jiao Tong University since 2002 and currently is a CFA charter holder. He also qualified as a PRC lawyer in 2000.

BIOGRAPHICAL DETAILS OF DIRECTORS *(Cont'd)*

HUA Min *(AC and RC)*

Aged 58, 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 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.

ONG Ka Thai *(AC and RC)*

Aged 53, 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. He is a director of Singamas Container Holdings Ltd., a company listed on the Stock Exchange. In July 2007, Mr. Ong was appointed as an INED, Chairman of Risk Management Committee and Chairman of Related Transaction Committee of China Bohai Bank Co. Ltd. for a fixed term up to December 2008.

Mr. Ong has over 30 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 49, 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 25 years of experience in audit, direct investment, investment banking and corporate advisory services.

Mr. Yick also serves as an INED and chairman of AC of Travelsky Technology Limited and Shenzhen Neptunus Interlong Bio-technique Co., Ltd. (both are listed on the Stock Exchange); Mr. Yick is also the INED of China-Biotics, Inc., (a company whose shares are quoted on the Over-the-Counter Bulletin Board market of the United States), and Beijing Centergate Technologies (Holding) Co., Ltd. (a company listed on The Shenzhen Stock Exchange).

CAI Nongrui

Aged 60, has been a Non-Executive Director of the Company and a director of the Investment Manager since December 1997. Mr. Cai joined 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 Shanghai Tong Sheng Investment (Group) Co., Ltd., an investor of Shanghai International Shipping Center's Yangshan Deepwater Port project.

DIRECTORS' REPORT

BIOGRAPHICAL DETAILS OF DIRECTORS *(Cont'd)*

CHEN Chi-chuan *(AC)*

Aged 50, 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.

LEE Tien-chieh

Aged 48, has been a Non-Executive Director since 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.

LIN Bin

Aged 52, was appointed as a Non-Executive Director of the Company in March 2007. He is currently Chairman and a licensed responsible officer of the Investment Manager, registered with the Securities and Futures Commission of Hong Kong.

Mr. Lin has been the Deputy General Manager of SITICO since May 2003. He joined SITICO in 1984 and has held numerous positions including General Manager of SITICO Trading Pudong Inc., Deputy General Manager of Financial Division II and Trust Division III of SITICO and General Manager of SITICO Financial Services Centre. He has more than 20 years of experience in trading, securities, trust and financial services areas in the PRC.

Mr. Lin did a tour of study at the University of Illinois at Urbana-Champaign and holds an executive Master in Business Administration degree from the China-Europe International Business School.

TSENG Ta-mon

Aged 49, has been a Non-Executive Director since 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 49, has been a Non-Executive Director since March 1999. He joined Nomura International (Hong Kong) Limited in 1994 and is the director of the Equity Capital Market. Dr. Wang graduated with a Bachelor of Arts degree from Nanjing University in the PRC and holds a Ph.D. degree and a Juris Doctor degree from the University of Pennsylvania, U.S.A.

DIRECTORS' REPORT

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 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. The Investment Manger 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.

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$2.80 subsequent to special dividend payouts from 2004 to 2007.

During the year ended December 31, 2007, investment management and administration fees of US$548,617 were paid to the Investment Manager.

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

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, 2007 to December 31, 2007 does not exceed the relevant New Cap as specified in the Fourth Supplemental Agreement.

As at December 31, 2007, Dr. WANG Ching, Mr. WU Bin, Mr. CAI Nongrui, Mr. CHEN Chi-chuan and Mr. LIN Bin are also directors of the Investment Manager.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES

At December 31, 2007, 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.

DIRECTORS' REPORT

SUBSTANTIAL SHAREHOLDERS

As at December 31, 2007, 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	Held by 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	495,000	5.56%	(5)
Shanghai International Trust Investment Corporation	Beneficial owner	495,000	5.56%	(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)

DIRECTORS' REPORT

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 an 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, 2007.

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 or 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.

DIRECTORS' REPORT

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, 2007, 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, 2007, 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, Dr. HUA Min and Mr. CHEN Chi-chuan, 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, 2007.

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.

AUDITOR

A resolution will be proposed to the annual general meeting to re-appoint Messrs. Deloitte Touche Tohmatsu as auditor of the Company.

On behalf of the Board
WANG Ching
Executive Director

Hong Kong, March 19, 2008

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF
SHANGHAI INTERNATIONAL SHANGHAI GROWTH INVESTMENT LIMITED
(incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of Shanghai International Shanghai Growth Investment Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 34 to 55, which comprise the consolidated balance sheet as at December 31, 2007, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

INDEPENDENT AUDITOR'S REPORT

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at December 31, 2007 and of its profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
March 19, 2008

CONSOLIDATED INCOME STATEMENT

For the year ended December 31, 2007

	Notes	2007 US$	2006 US$
Investment income	6	**626,219**	635,033
Gain on investments			
Gain on sale of investments in listed securities		**4,498,146**	909,080
Gain on sale of investments in unlisted securities		**–**	600,000
Exchange gain		**51,014**	2,007
		4,549,160	1,511,087
Increase in fair value of investment property		**43,290**	40,000
Operating expenses			
Investment Manager's fee	20	**(548,617)**	(625,168)
Administrative expenses			
Directors' emoluments	8	**(38,425)**	(38,602)
Other expenses	9	**(367,650)**	(409,520)
		(954,692)	(1,073,290)
Profit for the year		**4,263,977**	1,112,830
Earnings per share – Basic	12	**47.9 cents**	12.5 cents

CONSOLIDATED BALANCE SHEET

At December 31, 2007

	Notes	2007 US$	2006 US$
Non-current assets			
Interest in an associate	13	2,573,301	–
Investments in unlisted securities	14	2,500,000	–
Investments in listed securities	15	9,732,109	9,863,728
Investment property	16	–	680,000
		14,805,410	10,543,728
Current assets			
Dividend, interest and other receivables and prepayments		180,420	213,237
Consideration receivable from disposal of an investment		–	2,310,000
Bank balances	17	12,262,048	14,843,855
		12,442,468	17,367,092
Current liabilities			
Accrued charges		85,452	45,771
Amount due to Investment Manager	20	149,460	148,394
		234,912	194,165
Net current assets		12,207,556	17,172,927
		27,012,966	27,716,655
Capital and reserves			
Share capital	18	890,500	890,500
Reserves		26,122,466	26,826,155
		27,012,966	27,716,655
Net asset value per share	19	3.03	3.11

The consolidated financial statements on pages 34 to 55 were approved and authorized for issue by the Board of Directors on March 19, 2008 and are signed on its behalf by:

LIN Bin	**WANG Ching**
Director	*Director*

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended December 31, 2007

	Share capital US$	Share premium US$	Capital reserve US$	Retained earnings/ (accumulated losses) US$	Total US$
At January 1, 2006	890,500	41,453,435	(6,615,056)	193,778	35,922,657
Fair value changes of investments in listed securities recognized directly in equity *(Note i)*	–	–	2,276,248	–	2,276,248
Realized on disposal of listed securities	–	–	(909,080)	–	(909,080)
Profit for the year	–	–	–	1,112,830	1,112,830
Total recognized income for the year	–	–	1,367,168	1,112,830	2,479,998
Transfer to capital reserve *(Note ii)*					
– Gain on sale of investments in listed and unlisted securities	–	–	1,509,080	(1,509,080)	–
– Increase in fair value of investment property	–	–	40,000	(40,000)	–
Dividend recognized as distribution	–	(10,686,000)	–	–	(10,686,000)
At December 31, 2006 and at January 1, 2007	**890,500**	**30,767,435**	**(3,698,808)**	**(242,472)**	**27,716,655**
Fair value changes of investments in listed securities recognized directly in equity *(Note i)*	**–**	**–**	**3,982,980**	**–**	**3,982,980**
Realized on disposal of listed securities	**–**	**–**	**(4,498,146)**	**–**	**(4,498,146)**
Profit for the year	**–**	**–**	**–**	**4,263,977**	**4,263,977**
Total recognized (expenses) income for the year	**–**	**–**	**(515,166)**	**4,263,977**	**3,748,811**
Transfer to capital reserve *(Note ii)*					
– Gain on sale of investments in listed securities	**–**	**–**	**4,498,146**	**(4,498,146)**	**–**
– Increase in fair value of investment property	**–**	**–**	**43,290**	**(43,290)**	**–**
Dividend recognized as distribution	**–**	**(4,452,500)**	**–**	**–**	**(4,452,500)**
At December 31, 2007	**890,500**	**26,314,935**	**327,462**	**(519,931)**	**27,012,966**

Notes:

i. For securities that are classified as available-for-sale investments, fair value changes are dealt with in the capital reserve until the security is sold or determined to be impaired, at which time the cumulative gain or loss will be included in the income statement.

ii. As required by the Company's Articles of Association, gains on realization and revaluation of investments 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.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended December 31, 2007

	2007 *US$*	2006 *US$*
Operating activities		
Profit for the year	**4,263,977**	1,112,830
Adjustments for:		
Interest income	**(485,061)**	(445,848)
Dividend income	**(141,158)**	(189,185)
Gain on sale of investments in listed securities	**(4,498,146)**	(909,080)
Gain on sale of investments in unlisted securities	**–**	(600,000)
Share of results of an associate	**205**	–
Increase in fair value of investment property	**(43,290)**	(40,000)
Operating cash flows before movements in working capital	**(903,473)**	(1,071,283)
Decrease in other receivables and prepayments	**1,903**	166,991
Increase in accrued charges	**39,681**	37,196
Increase (decrease) in amount due to Investment Manager	**1,066**	(35,679)
Cash used in operations	**(860,823)**	(902,775)
Interest received	**506,975**	425,871
Dividend received	**150,158**	186,793
Net cash used in operating activities	**(203,690)**	(290,111)
Investing activities		
Consideration from disposal of investments	**2,310,000**	2,250,000
Proceeds from disposal of listed securities	**16,555,989**	12,607,264
Proceeds from disposal of an investment property	**723,290**	–
Purchase of listed securities	**(12,441,390)**	(8,770,573)
Purchase of unlisted securities	**(2,500,000)**	–
Purchase of an associate	**(2,573,506)**	–
Net cash from investing activities	**2,074,383**	6,086,691
Financing activities		
Dividends paid	**(4,452,500)**	(10,686,000)
Net decrease in cash and cash equivalents	**(2,581,807)**	(4,889,420)
Cash and cash equivalents at beginning of the year	**14,843,855**	19,733,275
Cash and cash equivalents at end of the year representing bank balances	**12,262,048**	14,843,855

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2007

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 ("Hong Kong Stock Exchange"). 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 principal activities of it subsidiaries are set out in note 22.

The consolidated financial statements are presented in United States dollars ("US$") and the functional currency of the Company is Hong Kong dollars ("HK$"). The Group presents the financial statements in US$ as it is the currency which management uses to review the Group's operation.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

In the current year, the Group has applied, for the first time, the following new standard, amendment and interpretations ("new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), which are effective for the Group's financial year beginning January 1, 2007.

HKAS 1 (Amendment)	Capital disclosures
HKFRS 7	Financial instruments: Disclosures
HK(IFRIC) – INT 7	Applying the restatement approach under HKAS 29 Financial Reporting in Hyperinflationary Economies
HK(IFRIC) – INT 8	Scope of HKFRS 2
HK(IFRIC) – INT 9	Reassessment of embedded derivatives
HK(IFRIC) – INT 10	Interim financial reporting and impairment

The adoption of the new HKFRSs had no material effect on how the Group's results and financial position for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

The Group has applied the disclosure requirements under HKAS 1 (Amendment) and HKFRS 7 retrospectively. Certain information presented in prior year under the requirements of HKAS 32 has been removed and the relevant comparative information based on the requirements of HKAS 1 (Amendment) and HKFRS 7 has been presented for the first time in the current year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2007

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(Cont'd)*

The Group has not early applied the following new and revised standards or interpretations that have been issued but are not yet effective.

HKAS 1 (Revised)	Presentation of financial statements [1]
HKAS 23 (Revised)	Borrowing costs [1]
HKFRS 8	Operating segments[1]
HK(IFRIC) – INT 11	HKFRS 2: Group and treasury share transactions [2]
HK(IFRIC) – INT 12	Service concession arrangements [3]
HK(IFRIC) – INT 13	Customer loyalty programmes [4]
HK(IFRIC) – INT 14	HKAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction [3]

[1] Effective for annual periods beginning on or after January 1, 2009.
[2] Effective for annual periods beginning on or after March 1, 2007.
[3] Effective for annual periods beginning on or after January 1, 2008.
[4] Effective for annual periods beginning on or after July 1, 2008.

The directors of the Company anticipate that the application of these standards or interpretations will have no material impact on the results and the financial position of the Group.

3. SIGNIFICANT ACCOUNTING POLICIES

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

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

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group. All intra-group transactions, balances, income and expenses are eliminated on consolidation.

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

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 Group's rights to receive payment have been established.

Investment properties

Investment properties are properties held to earn rentals and/or capital appreciation.

On initial recognition, investment properties are measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are measured at their fair values using the fair value model. Gains or losses arising from changes in the fair value of investment properties 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 consolidated income statement and then transferred to the capital reserve in the period in which they arise.

Investment in an associate

An associate is an entity over which the investor has significant influence and that is neither a subsidiary nor an interest in a joint venture.

The results and assets and liabilities of an associate are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, investments in associates are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the net assets of the associates, less any identified impairment loss. When the Group's share of losses of an associate equals or exceeds its interest in that associate, the Group discontinues recognising its share of further losses. An additional share of losses is provided for and a liability is recognized only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

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

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in its functional currency (i.e. the currency of the primary economic environment in which the entity operates) 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 that are measured in terms of historical cost in a foreign currency are not re-translated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group are translated into US$ the presentation currency of the Group, at the rate of exchange prevailing at the balance sheet date, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised as a separate component of equity.

Retirement benefit costs

Payments to defined contribution retirement benefit plans i.e. Mandatory Provident Fund Scheme, are charged as an expense when employees have rendered service entitling them to contributions.

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 consolidated income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes income statement items that are never taxable or deductible. The Group'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 consolidated 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.

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

Taxation *(Cont'd)*

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 is 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 consolidated balance sheet when the Group 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.

Financial assets

The Group'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.

Effective interest method

The effective interest method is a method of calculating the amortized cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period.

Income is recognized on an effective interest basis for debt instruments.

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

Financial instruments ***(Cont'd)***

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated or not classified as financial assets at fair value through profit or loss, loans and receivables or held-to-maturity investments.

(i) Investments in listed securities

The Group's investments in listed equity securities are measured at fair value. Changes in fair value are recognized in capital reserve, until the financial asset is disposed of or is determined to be impaired, at which time, the cumulative gain or loss previously recognized in capital reserve is removed from capital reserve and recognized in profit or loss.

(ii) Investments in unlisted securities

Investments in unlisted securities are available-for-sale equity investments 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. Investments 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.

As required by the Company's Articles of Association, gains and losses on realization and revaluation of investments 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 investment and bank balances) are carried at amortized cost using the effective interest method, less any impairment losses.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2007

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

Financial instruments *(Cont'd)*

Impairment of financial assets

Financial assets are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been impacted.

For an available-for-sale equity investment, a significant or prolonged decline in the fair value of that investment below its cost is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For financial assets carried at amortized cost, 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.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount 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 loss will not be reversed in subsequent periods.

For financial assets measured at amortized cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent 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.

Impairment losses on available-for-sale equity listed investments will not be reversed in profit or loss in subsequent periods. Any increase in fair value subsequent to impairment loss is recognized directly in equity.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2007

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

Financial instruments *(Cont'd)*

Financial liabilities and equity

Financial liabilities and equity instruments issued by the Group are classified according 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.

Effective interest method

The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Interest expense is recognized on an effective interest basis.

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.

Derecognition

Financial assets are derecognized when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received or any new asset obtained and the cumulative gain or loss that had been recognized directly in equity is recognized in profit or loss.

Financial liabilities are derecognized when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognized and the consideration paid including other liabilities assumed is recognised in profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2007

4. FINANCIAL INSTRUMENTS

Categories of financial instruments

	2007 US$	2006 US$
Financial assets		
Available-for-sale financial assets	**12,232,109**	9,863,728
Loans and receivables (including cash and cash equivalents)	**12,262,222**	17,184,943
Financial liabilities		
Amortized cost	**149,460**	148,394

Financial risk management objectives and policies

The Group's major financial instruments include investments in listed and unlisted securities, consideration receivable from disposal of an investment, 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

Interest rate risk

The Group is exposed to cash flow interest rate risk through the impact of rate changes on interest bearing financial assets which are mainly variable rate bank balances of US$12,262,048 (2006: US$14,843,855).

Sensitivity analysis

The sensitivity analysis has been determined based on the exposure to interest rates at the balance sheet date. For variable-rate bank balances, the analysis is prepared assuming the amount at the balance sheet date was the amount for the whole year. A 50 basis point increase or decrease represents management's assessment of the possible change in interest rates.

If interest rates had been 50 basis points higher/lower and all other variables were held constant, the Group's profit for the year ended December 31, 2007 would increase/decrease by US$61,310 (2006: increase/decrease by US$74,219). This is mainly attributable to the Company's exposure to interest rates on its variable-rate bank balances.

Price risk

The Group is exposed to equity security price risk. The management manages this exposure by maintaining a portfolio of investments with different risk and return profiles.

4. FINANCIAL INSTRUMENTS *(Cont'd)*

Financial risk management objectives and policies *(Cont'd)*

Market risk (Cont'd)

Sensitivity analysis

The sensitivity analysis below has been determined based on the exposure of the Group's investments in listed securities to equity price risks at the reporting date.

If the prices of the respective equity instruments had been 5% higher/lower, capital reserve would increase/decrease by US$486,605 (2006: increase/decrease by US$493,186) for the Group as a result of the changes in fair value of investments in listed securities.

Currency risk

Certain monetary assets and liabilities of the Group including bank balances and amount due to Investment Manager are denominated in foreign currencies. The Group currently does not have a foreign currency hedging policy. However, the management closely monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arises.

Sensitivity analysis

The Group is mainly exposed to fluctuation in exchange rate of RMB against HK$. As HK$ is pegged to US$ the exposure to fluctuations in exchange rate of US$ is not considered to be significant and thus this effect is not considered in the sensitivity analysis below. The following analysis details the Group's sensitivity to a 8% increase and decrease in RMB against HK$.

If exchange rates had been 8% higher/lower and all other variables were held constant, the Group's profit for the year ended December 31, 2007 would increase/decrease by US$58,938 (2006: increase/decrease by US$54,423).

Credit risk

The Group'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 consolidated balance sheet.

Credit risk on liquid funds is limited because the counterparties are reputable banks or banks with high credit ratings assigned by international credit rating agencies.

The consideration receivable from disposal of an investment was secured by the pledge of the disposed investment. In this regard, the directors of the Company considered that the Group's credit risk was significantly reduced. The amount outstanding was settled during the year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2007

4. FINANCIAL INSTRUMENTS *(Cont'd)*

Financial risk management objectives and policies *(Cont'd)*

Liquidity risk

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by management to finance the Group's operations and mitigates the effects of fluctuations in cash flows.

The following table details the Company's contractual maturity for its financial liabilities:

	2007 US$	2006 US$
Non-interest bearing financial liabilities – on demand	**149,460**	148,394

Fair value

The fair values of financial assets and financial liabilities are determined as follows:

- the fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices; and

- the fair value of other financial assets and financial liabilities is determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions and dealer quotes for similar instruments.

The carrying amount of financial assets and liabilities carried at amortized cost, approximate their respective fair values due to the relatively short-term nature of these financial instruments.

5. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure the Group will be able to continue as a going concern while maximizing the return to stakeholders through the optimization of the debt and equity balance. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of equity attributable to equity holders of the Company, comprising issued share capital, reserves and retained earnings.

The Directors of the Company review the capital structure on a semi-annual basis. As part of this review, the Directors consider the cost of capital and the risks associated with each class of capital. Based on recommendations of the Directors, the Group will consider to balance its overall capital structure through the payment of dividends or issue of new shares as well as raising bank loans.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2007

6. INVESTMENT INCOME

	2007 *US$*	2006 *US$*
Investment income comprises:		
Dividend income		
– Listed securities	**118,005**	189,185
– Unlisted securities	**23,153**	–
Interest income	**485,061**	445,848
	626,219	635,033

7. BUSINESS AND GEOGRAPHICAL SEGMENTS

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

8. DIRECTORS' EMOLUMENTS

Except for the directors' fee payable to the independent non-executive directors totalling US$38,425 (2006: US$38,602) which is within the band of nil to US$128,000, none of the directors has received any emoluments for both years.

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

	2007 *US$*	2006 *US$*
HUA Min	**12,809**	12,868
ONG Ka Thai	**12,808**	12,867
YICK Wing Fat Simon	**12,808**	12,867
	38,425	38,602

The Group pays emoluments to four (2006: four) individuals only, three (2006: three) of which are directors, emoluments of which are disclosed above, the emoluments of the remaining one (2006: one) individual are disclosed in note 9.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2007

9. OTHER EXPENSES

	2007 US$	2006 US$
Other expenses include the following:		
Auditor's remuneration	**20,959**	21,034
Custodian fee	**34,876**	35,509
Staff salaries and other benefits	**48,848**	48,098
Retirement benefits costs	**5,077**	5,094
Share of results of an associate	**205**	–

10. TAXATION

No provision for Hong Kong Profits Tax has been made in the consolidated financial statements as the Group has no assessable profits for both years.

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

	2007		2006	
	US$	%	US$	%
Profit for the year	**4,263,977**		1,112,830	
Tax at Hong Kong Profits Tax rate	**746,195**	**17.5**	194,745	17.5
Tax effect of expenses that are not deductible for tax purposes	**107,273**	**2.5**	121,253	10.9
Tax effect of share of results of an associate	**36**	**–**	–	–
Tax effect of tax losses not recognized	**59,763**	**1.4**	59,573	5.4
Tax effect of income that is not assessable for tax purposes	**(913,267)**	**(21.4)**	(375,571)	(33.8)
Taxation for the year	**–**	**–**	–	–

At December 31, 2007, the Group has estimated unused tax losses of approximately US$3,840,000 (2006: US$3,498,000) 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2007

11. DIVIDENDS

	2007	2006
	US$	*US$*
Special final dividend paid – US$0.50 (2006: US$1.20) per share paid from the share premium account	**4,452,500**	10,686,000

Subject to approval by shareholders at the Company's annual general meeting to be held on April 28, 2008, the Company proposes a special final dividend of US$0.20 per share payable from the share premium account, in cash for 2007. A total amount of US$1,781,000 will be paid on or before May 28, 2008.

12. EARNINGS PER SHARE – BASIC

The calculation of basic earnings per share is based on profit for the year of US$4,263,977 (2006: US$1,112,830) and on the number of 8,905,000 (2006: 8,905,000) ordinary shares in issue during the year.

No diluted earnings per share have been presented as the Company has no potential ordinary shares outstanding during both years.

13. INTEREST IN AN ASSOCIATE

	2007	2006
	US$	*US$*
Unlisted investment, at cost	**2,573,506**	–
Share of post acquisition loss	**(205)**	–
	2,573,301	–

The investment represents the Group's 22.73% equity interest in Raffles International Investment Limited ("Raffles") which is an investment holding company, incorporated in the British Virgin Islands, with its investment in an enterprise engaged in the manufacture and distribution of high-end health care products in the PRC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2007

13. INTEREST IN AN ASSOCIATE *(Cont'd)*

The summarized financial information of Raffles is set out below:

	2007 *US$*	2006 *US$*
Total assets	**11,322,067**	–
Total liabilities	**(901)**	–
	11,321,166	–
Share of net assets	**2,573,301**	–
Turnover	**–**	–
Loss for the period	**(901)**	–
Share of results of an associate	**(205)**	–

14. INVESTMENTS IN UNLISTED SECURITIES

	2007 *US$*	2006 *US$*
Investment cost	**11,243,600**	8,743,600
Less: Accumulated impairment	**(8,743,600)**	(8,743,600)
	2,500,000	–

The above unlisted investments represent investments in unlisted equity securities issued by private entities incorporated in countries outside Hong Kong. Unlisted investments 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.

Included in unlisted securities above is the Group's investment in China Material Technology Limited ("CMT") with a carrying value of US$2,500,000.

The investment represents a 4.31% equity interest in CMT. CMT is an investment holding company, incorporated in the Cayman Islands, with its subsidiary engaged in the production of galvanized steel in the PRC.

15. INVESTMENTS IN LISTED SECURITIES

	2007	2006
	US$	*US$*
Listed securities, at fair value:		
Shares listed on Hong Kong Stock Exchange	**9,732,109**	9,638,017
Non-tradable listed securities *(Note)*	**–**	225,711
	9,732,109	9,863,728

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.

At December 31, 2007, gain arising from fair value changes of investments in listed securities of US$1,609,440 (2006: US$2,124,607) was recognized directly in capital reserve.

Note:

The amount represents the investment in Semiconductor Manufacturing International Corporation ("SMIC"), shares of which 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 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. The last batch of shares subject to lock-up was released on February 25, 2007, from then on, all non-tradable listed securities has become fully tradable.

16. INVESTMENT PROPERTY

	2007	2006
	US$	*US$*
Fair value:		
At January 1	**680,000**	640,000
Increase in fair value recognized in the consolidated income statement	**43,290**	40,000
Disposal	**(723,290)**	–
At December 31	**–**	680,000

The fair value of the Group'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 has 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.

During the year, the investment property was disposed and a fair value gain of US$43,290 was recognized in profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2007

17. BANK BALANCES

Bank balances comprise short-term bank deposits which carry interest ranging from 1% to 4% per annum.

Included in the bank balances are the Renminbi short-term bank balances of US$736,728 (2006: US$680,297) kept in a financial institution registered in the PRC.

18. SHARE CAPITAL

	Number of ordinary shares of US$0.1 each	**Share capital** *US$*
Authorized:		
At January 1, 2006, December 31, 2006 and December 31, 2007	18,000,000	1,800,000
Issued and fully paid:		
At January 1, 2006, December 31, 2006 and December 31, 2007	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 Group as at December 31, 2007 of US$27,012,966 (2006: US$27,716,655) and on the number of 8,905,000 (2006: 8,905,000) ordinary shares in issue as at December 31, 2007.

20. RELATED PARTY TRANSACTIONS

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

	2007 *US$*	2006 *US$*
Investment management and administration fees paid and payable to Shanghai International Asset Management (Hong Kong) Company Limited (the "Investment Manager")	**548,617**	625,168
Amount due to Investment Manager at balance sheet date	**149,460**	148,394

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 deductions of the fees payable to the Investment Manager, the investment adviser and the custodian for that quarter) of the Group calculated on the last business day of the previous quarter.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2007

20. RELATED PARTY TRANSACTIONS *(Cont'd)*

Amount due to Investment Manager is unsecured, interest free, repayable on demand and is denominated in US$.

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

21. POST BALANCE SHEET EVENT

In January 2008, the Group entered into a subscription agreement to acquire 260 series A preference shares (the "Preference Shares") of Grandpro Technology Limited ("Grandpro") for a total consideration of US$2,600,000 (the "Subscription Agreement").

Grandpro is an investment holding company, incorporated in the Cayman Islands, with its subsidiaries engaged in the provision of service platform for online game and entertainment. The Group have negotiated for a put option to exercise full redemption of its Preference Shares plus interest of 10% per annum if certain conditions are not consummated by Grandpro by the end of 2010.

22. SUBSIDIARIES

Details of the Company's subsidiaries at the balance sheet date are as follows:

Name of subsidiary	Place of incorporation	Proportion of nominal value of issued share capital held by the Company		Principal activities
		2007	2006	
Guardian Investment Growth Limited	British Virgin Islands	**100%**	100%	Inactive
Kensington Capital Investment Limited	British Virgin Islands	**100%**	100%	Inactive

FINANCIAL SUMMARY

	Year ended December 31,				
	2003	2004	2005	2006	**2007**
	US$'000	*US$'000*	*US$'000*	*US$'000*	***US$'000***
RESULTS					
Income	4,951	4,635	8,952	2,186	**5,219**
Expenses	2,980	2,552	7,334	1,073	**955**
Profit before taxation	1,971	2,083	1,618	1,113	**4,264**
Taxation	1,200	–	–	–	**–**
Profit for the year	3,171	2,083	1,618	1,113	**4,264**
Earnings per share	35.6¢	23.4¢	18.2¢	12.5¢	**47.9¢**

	At December 31,				
	2003	2004	2005	2006	**2007**
	US$'000	*US$'000*	*US$'000*	*US$'000*	***US$'000***
ASSETS AND LIABILITIES					
Investment in securities	39,785	43,501	15,384	9,864	**14,805**
Others	14,151	13,873	20,539	17,853	**12,208**
Net assets	53,936	57,374	35,923	27,717	**27,013**
Net asset value per share	US$6.06	US$6.44	US$4.03	US$3.11	**US$3.03**