SHANGHAI INTERNATIONAL SHANGHAI GROWTH INVESTMENT LIMITED

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

Annual Report 2008

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

Contents

CORPORATE INFORMATION

DIRECTORS

Executive Directors:
Dr. WANG Ching
Mr. WU Bin

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
Mr. TSENG Ta-mon
Dr. WANG Changhong
(resigned on July 15, 2008)

COMPANY SECRETARY

Mr. LIANG Kwan Wah Andrew

INVESTMENT MANAGER

Shanghai International Asset
Management (H.K.) Co., Ltd.
1707-8, 17/F, Tower 1, New World Tower
16-18 Queen's Road Central, Hong Kong

Room 1204 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
(terminated on January 1, 2009)
Standard Chartered Bank (Hong Kong) Limited
(with effect from January 1, 2009)

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 its annual report of the Company and its subsidiaries (the "Group") for the year ended December 31, 2008.

REVIEW OF RESULTS

The Group recorded a net operating loss of US$2,001,941 for the year ended December 31, 2008, a decrease of 147% year-on-year when compared with a net profit of US$4,263,977 in 2007. The Group disposed most of the listed securities in the first half of 2008 and thus avoided the enormous corrections brought about by the global financial tsunami. Nonetheless, the Group recorded realized losses of US$587,960 on the exit of listed securities and an impairment loss of US$446,605 in value of one listed securities as compared with a realized gain of US$4,498,146 in 2007. During the year, the Group received US$56,153 in dividend income (2007: US$118,005) from listed securities. A total loss of US$2,056,045 was recognized as changes in fair value in listed securities investments of the Group for the year ended December 31, 2008.

As for unlisted investments, no dividend income was recorded during the year since two of the four current investments were made in the fourth quarter of 2007, with the other two, being investment in redeemable convertible preference shares, in the first quarter of 2008. No fair value change in unlisted investments was recognized for the year ended December 31, 2008.

In the first quarter of 2008, the Group anticipated that the global stock market would perform poorly throughout and therefore adopted a cash-holding strategy by gradually reducing its position of listed investments during the first two quarters, leaving the listed investment portfolio at the end of December 2008 to only one stock carried from an earlier direct investment. Such strategy has brought a loss of 27.82% to the listed investment portfolio in 2008, which nonetheless, outperformed all major indices, such as the Hang Seng Index, Shanghai A Index, Taiwan Exchange Index and Dow Jones Index which lost 48.27%, 65.38%, 46.03% and 33.84% respectively.

The Company paid a special final dividend of US$0.20 per share for 2007 in May 2008. The Group's net asset value ("NAV") per share as at December 31, 2008 was US$2.43 after such dividend distribution, a 19.8% decrease compared with US$3.03 at the end of 2007 whilst a 13.2% drop before payment of such dividend. As at the end of December 2008, the Company's share price was US$2.00 (2007: US$2.30), reflecting a 17.7% discount to NAV per share.

LIQUIDITY, FINANCIAL RESOURCES, GEARING AND CAPITAL COMMITMENT

Subsequent to the two preference shares investments of US$7,600,000 in early 2008 and a distribution of special dividend of US$1,781,000 in May 2008, the Group's bank balances as of December 31, 2008 were US$8,568,022 (2007: US$12,262,048), of which US$788,156 (2007: US$736,728) were held in RMB equivalent in trust deposits with a registered financial institution in China. RMB is not a freely convertible currency and the RMB exchange rate has appreciated by approximately 7% versus the US dollar during 2008.

The Group did not have any bank borrowing or capital commitment on its unlisted investments at end of December 2008 and December 2007 respectively.

BOARD OF DIRECTORS' STATEMENT

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 slow and moderate appreciation of the RMB regime against the US dollar has a positive but negligible impact to the Group.

EMPLOYEES

Other than maintaining a qualified accountant, 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 (H.K.) Co., Ltd. (the "Investment Manager").

CHANGE IN CUSTODIAN

The custodian services previously provided by State Street Bank and Trust Company was terminated as from January 1, 2009 and Standard Chartered Bank (Hong Kong) Limited, a licensed bank in Hong Kong regulated by the Hong Kong Monetary Authority and an independent third party of the Company, was appointed custodian of the Company with effect from the same date.

DIVIDEND DISTRIBUTION

Subject to approval by shareholders at the annual general meeting of the Company to be held on May 8, 2009, the Board proposes a special final dividend of US$0.10 per share in cash for 2008, representing approximately a 6.33% return on the market share price at the time of announcing such dividend. This special final dividend, if approved, will be paid on or before May 29, 2009 to shareholders whose names are on the Company's Register of Members on May 8, 2009.

CLOSING OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from April 22, 2009 to May 8, 2009, both days inclusive, during which period no transfer of shares can 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 21, 2009.

BOARD OF DIRECTORS' STATEMENT

OUTLOOK FOR 2009

The world economy was hard hit by the financial tsunami in 2008. The sub-prime black-hole, financial distress in the banking industry, deteriorating rate of consumption, all contributed to economic recession and sadly, signs of recovery have yet to be seen. The Investment Manager believes there will still be bumpy rides ahead in 2009 and therefore will take prudent view on investments despite believing that Greater China will be the first region to recover from the financial tsunami.

Nonetheless, on the direct investment front, the financial tsunami brings along attractive investment opportunities whereby we find valuations in terms of Price Earnings ratio "P/E" are at the lowest ever. The Investment Manager agrees 'Cash' is still the 'King' for the time being but has been diligently looking for good investment opportunities from which lucrative returns could be obtained for the Company's shareholders in the medium term.

On the other hand, the P/E for the Hang Seng Index in Hong Kong has fallen about 60% from its peak in 2007. The Investment Manager has been actively searching for defensive plays and believes that 'Consumer products', 'Infrastructure', 'Energy' and 'Technology' related industries will be the leading sectors should recovery comes upon. As such, the Investment Manager will deploy resources in analyzing and identifying industry leaders for building up the Company's listed securities investment portfolio.

Last but not least, the Investment Manager will continue to place emphasis on closely monitoring the operations and management of invested unlisted projects and to assist them to enhance their performance in order to be well-equipped for public listing of their shares during favourable market sentiment.

For and on behalf of the Board
WANG Ching
Executive Director

Hong Kong, March 12, 2009

MANAGEMENT DISCUSSION AND ANALYSIS

ECONOMIC REVIEW

China Economy

China's major economic indicators:

Growth (year-on-year, per-cent)	2007	**1H 2008**	**2008**
Gross domestic product ("GDP")	13.0	**10.4**	**9.0**
Value added industrial output	18.5	**16.3**	**12.9**
Retail sales	16.8	**21.4**	**21.6**
Consumer price index ("CPI")	4.8	**7.9**	**5.9**
Fixed asset investments ("FAI")	24.8	**26.3**	**25.5**
Actual foreign direct investments	13.6	**45.6**	**23.6**
Exports	25.7	**21.9**	**17.2**
Imports	20.8	**30.6**	**18.5**
Trade surplus (US$ billion)	262.2	**99.0**	**295.5**
Foreign exchange reserve (US$ billion)	1,528.2	**1,808.8**	**1,950.0**

Source: Published information

2008 was by far a challenging year for China. The first half of 2008 was marred by natural disasters, such as severe snow storms and the Sichuan earthquakes. However, Beijing managed to host the most successful and brilliant Olympic games ever in the midst of a world financial tsunami during the second half of the year.

In spite of a sharp economic downturn from the rest of the world, China still managed to achieve a 9% growth in GDP. The highest authority from the central government has declared that the country is in need to boost up its domestic demand to maintain economic growth. The Chinese central government has committed to implement plans to increase spending over the next couple of years, in creating jobs and lifting domestic demand. Most notable was the RMB 4 trillion stimulus package to boost domestic demand primarily in ten areas namely, housing, infrastructure, transportation, environment protection, industrial, health & education, disaster rebuilding, incomes, taxes and finance.

Premier Wen has mentioned earlier that the government plans to speed up the implementation of economic stimulus measures as soon as possible, and such government incentives in the first quarter of 2009 could be the key to an economic turnaround. Benefits from fiscal stimulus and monetary loosening policy are expected to impact in the second half of 2009, in an effort in maintaining GDP growth at 8% or above.

MANAGEMENT DISCUSSION AND ANALYSIS

ECONOMIC REVIEW *(Cont'd)*

Global Economy

In 2008, the global economy was haunted by the bigger-than-ever financial crisis. The banking and financial systems in the west had started to collapse and displayed a vulnerable side. The failures of Bear Sterns and Lehman Brothers have lifted the curtains for a chain of other financially distressed institutions. Most struggling financial institutions were seeking help from the US federal government, and the US$700 billion bailout plan was the first answer from the Bush administration to the market.

The US government injected capital into banks and financial institutions to keep them afloat. Some well-known investment banks like Morgan Stanley and Goldman Sachs were both restructured into bank holding companies, which would enable them to gain access to the Federal Reserve's discount window for short-term liquidity issues. However, the subprime aftermath did not end there, it spread even further from Wall street to Main street, with more home foreclosures in the suburban areas and a climb in the unemployment rate to 6.87% in December 2008.

Another sector that had been hit hard was automobiles in the US; Ford, General Motors and Chrysler are all in trouble short of working capital. Car sales dropped which resulted in lay-offs, some production plants were being shut down for cost-saving purposes. The US stock market benchmark index Dow Jones plunged one-third in 2008, the financial sectors were the most severely hit among others. The federal fund target rate had been reduced from 4.25% to a record low of 0.25%.

In Asia, countries were unable to be immune from such an enormous economic crisis. Lower exports from China was recorded owing to severe drop in consumption in western countries. In response to the worsening economy, the Chinese government announced an RMB 4 trillion stimulus package by the end of 2008 to boost domestic demand. Despite the Chinese government adopting a few monetary policies such as dropping banks' required-reserve-ratio and lending rate to increase money supply, hoping to soften the effect from decreasing overseas demand, the Shanghai and Shenzhen A-Share stock markets however tumbled, both recorded a drop of over 60%.

The Hong Kong market was heavily influenced by US and China, due to a high correlation to both countries. The market was bearish throughout 2008 and showed no sign of a turnaround. The overall sentiment on stock investment was rather pessimistic. The market remained weak with occasional short-term rebounds which were mainly due to reactions to unanticipated rate-cuts, bailouts and stimulus packages.

MANAGEMENT DISCUSSION AND ANALYSIS

ECONOMIC REVIEW *(Cont'd)*

Relevant stock markets' performance in 2008

Indices	**December 31, 2008**	December 31, 2007	Change
Hang Seng Index "HSI"	**14,387.48**	27,812.65	-48.27%
Hang Seng China Enterprises Index "HSCEI"	**7,891.80**	16,124.72	-51.06%
Hang Seng China-Affiliated Corporations (Red Chip) Index "HSCCI"	**3,292.40**	6,111.20	-46.13%
Shanghai A-Share Stock Price Index "Shanghai A"	**1,911.79**	5,521.49	-65.38%
Shenzhen A-Share Stock Price Index "Shenzhen A"	**581.51**	1,520.99	-61.77%
Taiwan Exchange Index "TAIEX"	**4,591.22**	8,506.28	-46.03%
Dow Jones Industrial Average Index "DOW JONES"	**8,776.39**	13,264.82	-33.84%
Standard and Poor's 500 Index "S&P 500"	**903.25**	1,468.36	-38.49%
NASDAQ Composite Index "NASDAQ"	**1,577.03**	2,652.28	-40.54%

Source: Bloomberg

The Group's Investment Portfolio Allocation

	December 31, 2008	December 31, 2007
Unlisted investments	**59%**	19%
Listed investments	**1%**	36%
Cash and cash equivalents	**40%**	45%
Total	**100%**	100%

MANAGEMENT DISCUSSION AND ANALYSIS

LISTED INVESTMENTS REVIEW

In view of signs of poor performance of global stock markets in the first quarter of 2008, the Group had adopted a cash-holding strategy by gradually reducing its positions in listed investments during the first two quarters, leaving the listed investment portfolio at the end of December 2008 with only one stock carried from an earlier direct investment. Such strategy has brought a loss of 27.82% to the listed investment portfolio in 2008, which nonetheless, outperformed all major indices, such as HSI, Shanghai A, TAIEX and Dow Jones which lost 48.27%, 65.38%, 46.03% and 33.84% respectively.

LISTED SECURITIES PORTFOLIO

As at December 31, 2008

Name of listed securities	Nature of business	Number of shares held	% held of total issued shares	Cost	Market value	% of net asset value	Dividend received
				US$	US$		US$
Semiconductor Manufacturing International Corporation	Fabricate semiconductor for integrated circuit design	6,414,540	0.0829	715,600	268,995	1.24	–
Total investment in listed securities				715,600	268,995	1.24	

MANAGEMENT DISCUSSION AND ANALYSIS

LISTED INVESTMENTS REVIEW *(Cont'd)*

LISTED SECURITIES PORTFOLIO *(Cont'd)*

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 Company Co. of China Ltd. – H shares	Insurance and related products	80,000	0.0031	916,744	858,368	3.18	–
Semiconductor Manufacturing International Corporation	Fabricate semiconductors for integrated circuits design	15,394,540	0.0829	1,717,401	1,618,224	5.99	–
Shun Tak Holdings Ltd.	Real estate development	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

MANAGEMENT DISCUSSION AND ANALYSIS

UNLISTED INVESTMENTS REVIEW

In the first half of 2008, China was hit by snow storms, earth quakes and other natural disasters, followed by a global financial storm in the second half of the year, which was originated by the sub-prime crisis from the United States. All these have led China to an economic growth slow-down. Although the China financial market did not suffer from liquidity problems like bankruptcies, export and direct investments but were nonetheless weakened and the economy was affected as a result. From the angle of the capital market, equity investments, merger and acquisition activities and IPO markets all entered into a consolidating phase. On the venture capital market, despite recorded growth, it had slowed down in terms of total investment project number and total investment value. Some venture capital investment institutions became more conservative in responding to the complicated and rugged environment.

In 2008, the Investment Manager was very prudent on screening new projects with particular focus on sectors such as consumer related and new energy. The Company participated in two redeemable preference shares investment in January and March 2008 for an aggregate investment of US$7,600,000. The first one was an online game platform provider, Grandpro Technology Limited and the second one was an internet B2B trading platform provider, Global Market Group Limited.

The Investment Manager had been actively looking for new investments in the second half of 2008 but was not able to find the right projects with good returns owing to the uncertainties of the financial market as a whole.

MANAGEMENT DISCUSSION AND ANALYSIS

UNLISTED INVESTMENTS REVIEW *(Cont'd)*

UNLISTED INVESTMENTS PORTFOLIO
As at December 31, 2008

Invested projects	Nature of business	% of equity interest	Amount invested at cost US$	Share of results US$	Carrying value of investment at 31.12.2008 US$	% of net asset value	Dividend income US$	Accumulated dividend income US$
Interest in an associate								
Raffles International Investment Limited *(N1)*	Investment holding	22.73	2,573,506	(345)	2,573,161	11.90	–	–

Invested projects	Nature of business	% of equity interest	Amount invested at cost US$	Impairment US$	Carrying value of investment at 31.12.2008 US$	% of net asset value	Dividend income US$	Accumulated dividend income US$
Investment in unlisted securities								
China Material Technology Limited *(N2)*	Investment holding	4.31	2,500,000	–	2,500,000	11.56	–	–
Grandpro Technology Limited *(N3)*	Investment holding	2.17	2,600,000	–	2,600,000	12.03	–	–
Global Market Company Limited *(N4)*	B2B trading	8.47	5,000,000	–	5,000,0000	23.13	–	–
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)	–	–	–	–
			18,843,600	(8,743,600)	10,100,000	46.72	–	2,080,520
Total unlisted investments			**21,417,106**	**(8,743,945)**	**12,673,161**	**58.62**		

N1: *An investment holding company through which the Company ultimately acquires 1.96% equity interest in an enterprise which engages in manufacture and sales of high-end health care products.*

N2: *An investment holding company through which the Company acquires 4.31% in an enterprise which engages in production and sales of galvanized steel.*

N3: *An investment in redeemable convertible preference shares which translates into a 2.17% equity interest in an enterprise engages in internet game platform.*

N4: *An investment in redeemable convertible preference shares which translates into a 8.47% equity interest in an enterprise engages in B2B trading.*

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 *(N1)*	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 *(N2)*	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
Total unlisted investments			**13,817,106**	**(8,743,805)**	**5,073,301**	**18.78**		

N1: An investment holding company through which the Company ultimately acquires 2.2% equity interest in an enterprise which engages in manufacture and sales of high-end health care products.

N2: An investment holding company through which the Company acquires 4.31% in an enterprise which engages in production and sales of galvanized steel.

MANAGEMENT DISCUSSION AND ANALYSIS

UNLISTED INVESTMENTS REVIEW *(Cont'd)*

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. Raffle 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"). After a couple of rounds of additional capital injection in Tongrui at higher valuations, Raffles' equity interest in Tongrui had been diluted to 8.64%. Accordingly, the Company's indirect equity interest in Tongrui is 1.96%.

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. After years of product development, Wuxi Ruinian has widened its health care product range by launching over 10 different products in total. Led by its flagship amino acids related product, Wuxi Ruinian's strategy is to develop a range of products called "Vital elements for life". In 2008, Wuxi Ruinian extended its expertise into the beverage market by launching a new product line of herbal tea called "Shun Pai" which has received a very positive response from the market.

The Ruinian group has filed an application in 2008 for a listing of its shares on the Hong Kong Stock Exchange and ready to list when favourable capital market conditions return.

China Material Technology Limited ("CMT")

The Company invested in 4.31% equity interest in CMT for a consideration of US$2.5 million in November 2007.

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 first stage planned 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).

In 2008, the price of raw materials and finished products retreated from their peaks, due to the global financial crisis. Affected by the limitation of working capital at the beginning of 2008, coupled with the gas pipes replacement project which lasted for two months since June, SPLS' management adopted a prudent strategy which, despite an annual operating loss avoided the fate of production shutdowns and closures that were experienced by some of its competitors in the industry.

A new experienced management team with specific business target to enhance production and sales strategy joined SPLS at the end of 2008. Coupled with a capital increase plan by shareholders in 2009, SPSL is expecting a turnaround and become profitable in the next two years. In particular, the benefits flow from the Chinese government's RMB 4 trillion stimulus package will help the steel industry gradually recover from demand for infrastructure development. The management of CMT looks forward to revenue and profit growth in SPLS in the coming years.

MANAGEMENT DISCUSSION AND ANALYSIS

UNLISTED INVESTMENTS REVIEW *(Cont'd)*

NEW INVESTMENTS IN 2008

Grandpro Technology Limited ("Grandpro" or "Haofang Company")

In January 2008, the Company acquired 260 Series A-1 Preference Shares in Grandpro ("Grandpro Preference Shares") for a consideration of US$2.6 million, representing approximately a 2.17% equity stake. On August 1, 2008, the Grandpro Preference Shares were enlarged to 2,600,000 shares subsequent to a sub-division of Grandpro's shares to US$0.0001 per share. Pursuant to investment terms, Grandpro Preference Shares are convertible into ordinary shares of Grandpro upon listing of its shares on a recognized stock exchange or are redeemable at cost plus accrued interest at 10% per annum should listing of its shares not be consummated by the end of 2010. The performance of redemption is guaranteed by the controlling shareholder of Grandpro, Shanda Interactive Entertainment Limited ("SNDA"), a company listed on the NASDAQ, USA.

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 Company". Both companies are registered in the PRC with their main operations in Pudong, Shanghai.

Haofang Company is principally engaged in the development and operation of online game platform. Haofang Company had developed 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.

SNDA provided software and hardware support to Haofang Company in the development of online game platform business. In 2008, Haofang Company made steady progress in its business operations, such as concluding several games royalty rights, as well as launching a new version 5.0 gaming platform. However, the overall revenue was short of expectations due to a minimal increase in platform VIP clients' income, advertising income and game revenue sharing. In the last quarter of 2008, a new management team from SNDA was positioned in Haofang Company targeted to explore new business development strategy to boost up revenue. By creation of online communities of games players with common interests, the strategy is to enhance members' cohesiveness to Haofang's game platform. On the advertising revenue front, Haofang Company will consolidate the resources and develop new sales team to promote internet advertising sales.

MANAGEMENT DISCUSSION AND ANALYSIS

UNLISTED INVESTMENTS REVIEW *(Cont'd)*

NEW INVESTMENTS IN 2008 *(Cont'd)*

Global Market Group Limited ("GMG")

In March 2008, the Company acquired 1,530,769 Series B Preferred Shares in GMG ("GMG Preferred Shares") for a consideration of US$5 million. The Company's investment represented approximately 8.47% equity interest in GMG. The GMG Preferred Shares are convertible into ordinary shares of GMG upon the listing of its shares on a recognized stock exchange or are redeemable at cost should listing of its shares not be consummated by the end of 2011, with an interest return of 8% p.a. on outstanding principal payable within three years.

GMG is a leading B2B internet trading service provider in the PRC. It focuses on providing an international trading service platform for high-end quality export manufacturers in China and international buyers. GMG expands its service platform from its original three core industries to 15 industries. In 2008, GMG acquired two other B2B internet trading service platform providers. However, the adverse effect on China's exports from the global economic slow-down, resulted in an inevitable drop in GMG's net profit.

Apart from B2B trading platform, GMG expanded into international logistics business by providing a complete range of related services including freight forwarding, transport insurance and customs declaration. However, logistics business recorded losses due to the drop in China exports. In view of a targeted GDP growth in China's economy in 2009, management of GMG has implemented cost-savings measures on its logistics business to achieve breakeven, while enhancing its sales force to boost up B2B revenue at the same time.

BIOGRAPHICAL DETAILS OF DIRECTORS

WANG Ching *(RC)*

Aged 54, 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 is currently registered as one of the responsible officers of the Investment Manager with the Securities and Futures Commission ("SFC").

Dr. Wang has over 16 years' managerial experience in investment banking, securities, treasury and fund management sectors in the Unites 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 is also INED of Minth Group Limited and China Singyes Solar Technologies Holdings Limited, both are listed on The Stock Exchange of Hong Kong Limited.

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 35, was appointed as an Executive Director of the Company and Deputy Managing Director of the Investment Manager in May 2007. Mr. Wu is currently registered as one of the responsible officers of the Investment Manager with the SFC.

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") since 2006. Before that, he had been the Assistant General Manager of Investment Banking Department with Shanghai International Trust Corporation Ltd. ("SITCO") since 2004, which is a subsidiary company of SIG and one of the substantial shareholders of the Company. From 1996 to 2004, he had held senior positions with foreign banking and securities institutions in the PRC. Mr. Wu has over 11 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 and currently is a CFA charter holder. He also qualified as a PRC lawyer in 2000.

RC-Remuneration Committee
AC-Audit Committee

BIOGRAPHICAL DETAILS OF DIRECTORS

HUA Min *(AC and RC)*

Aged 59, 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 54, has been an INED since June 1997 and Chairman of the RC. Mr. Ong is currently the Chairman of various companies including Ong Pacific (H.K.) Ltd., Ong First Tradition Pte. Ltd., Ong Commodities Pte. Ltd. and Ong Pacific Capital Ltd. These companies are third parities independent of the Company and connected persons of the Company. 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. Currently, he is an INED of Singamas Container Holdings Ltd., a company listed on The Stock Exchange of Hong Kong Limited. As at the financial year end of the Company, Mr. Ong is also an INED of China Bohai Bank Limited. Singamas Container Holdings Ltd. and China Bohai Bank Limited are third partied independent of the Company and connected persons of the Company.

Mr. Ong has over 32 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 51, 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 27 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, Shenzhen Neptunus Interlong Bio-technique Co., Ltd. and China Singyes Solar Technologies Holdings Limited (all are listed on The Stock Exchange of Hong Kong Limited); Mr. Yick is also an INED and Chairman of the AC of China-Biotics, Inc., (a company listed on the Nasdaq Global Market in the USA), and Beijing Centergate Technologies (Holding) Co., Ltd. (a company listed on The Shenzhen Stock Exchange in the PRC).

BIOGRAPHICAL DETAILS OF DIRECTORS

CAI Nongrui

Aged 61, has been a Non-Executive Director of the Company and a director of the Investment Manager since December 1997. Mr. Cai joined SITCO 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.

CHEN Chi-chuan *(AC)*

Aged 51, 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 49, 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 19 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 53, has been a Non-Executive Director of the Company since March 2007. He is currently Chairman and one of the licensed responsible officers of the Investment Manager, registered with the SFC.

Mr. Lin has been the Deputy General Manager of SITCO since May 2003. He joined SITCO in 1984 and has held numerous positions including General Manager of SITCO Trading Pudong Inc., Deputy General Manager of Financial Division II and Trust Division III of SITCO and General Manager of SITCO 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 50, 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 of Hong Kong Limited.

CORPORATE GOVERNANCE REPORT

This Corporate Governance Report contains information for the year ended December 31, 2008 and was prepared in accordance with Appendix 23 of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

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

The Code on Corporate Governance Practices setting out in Appendix 14 of the Listing Rules (the "CG Code") was introduced on January 1, 2005. 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, 2008, 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 of the Listing Rules as its code of conduct regarding Directors' securities transactions. Having made specific enquiry with of all Directors, the Company confirms that all Directors comply with the Model Code during the financial year ended December 31, 2008.

INTERNAL CONTROL REVIEW

The Company's system of internal control was reviewed and reported to the Board by BDO McCabe Co. Ltd. ("BDO"), certified public accountants, in the second half of 2008. The resultant Internal Audit Report presented by BDO, which had been reviewed by the Audit Committee and the Board, concluded that the internal control environment is satisfactory and the management of the Investment Manager generally follow the guidelines and procedures as 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 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 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 29 under the heading "Investment Management and Administration Agreement and Continuing Connected Transactions".

CORPORATE GOVERNANCE REPORT

BOARD OF DIRECTORS *(Cont'd)*

Composition

The Board comprises ten Directors of whom two are Executive Directors, five are Non-executive Directors and three are Independent Non-executive Directors ("INEDs"). Certain change in directorship occurred during 2008 and this is reflected under "Corporate Information" at the beginning of this report and Directors' Report. 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 17 to 19 under the heading "Biographical Details of Directors".

The Board held five Board meetings during the 2008 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, 2008 was:

Number of meetings held			Five (5)
Name of Director	**Attendance**	**Name of Director**	**Attendance**
Dr. Wang Ching	5/5	Mr. Cai Nongrui	4/5
Mr. Wu Bin	5/5	Mr. Chen Chi-chuan	4/5
Dr. Hua Min	3/5	Mr. Lee Tien-chieh	5/5
Mr. Ong Ka Thai	5/5	Mr. Lin Bin	4/5
Mr. Yick Wing Fat Simon	5/5	Mr. Tseng Ta-mon	3/5
Dr. Wang Changhong (resigned on July 15, 2008)	2/3		

As at December 31, 2008, 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, 2008. Details of such relationships are set out on pages 30 to 31 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, 2008. All of them are free to exercise their individual judgment.

CORPORATE GOVERNANCE REPORT

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 and the Company 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, invite and evaluate qualifications of nominated candidates for directorship.

CORPORATE GOVERNANCE REPORT

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 2008 financial year. Members of the Audit Committee for the year ended December 31, 2008 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	1/2
Mr. Ong Ka Thai	2/2	Mr. Chen Chi-chuan	1/2

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 2008, 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 2008. It has also reviewed the half-year results for the period ended June 30, 2008 and the annual results for the year ended December 31, 2008 of the Company before their respective announcements.

CORPORATE GOVERNANCE REPORT

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. No meeting was held during the 2008 financial year. In 2008, the Remuneration Committee has reviewed remuneration package for the Company's employee and the INEDs by reference to market comparables, and the current remuneration policy of no remuneration is determined for executive Directors and other non-executive Directors.

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 concerned individuals 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 auditors of the Company, Messrs. Deloitte Touche Tohmatsu, with regard to their reporting responsibilities on the Company's financial statements, is set out in the Auditor's Report on pages 33 to 34.

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.

AUDITORS' REMUNERATION

For the year ended December 31, 2008, services provided to the Company by its external auditor, Deloitte Touche Tohmatsu, and the respective fees paid were:

	2008 US$
Audit services	**27,742**
Taxation compliance and other services	**16,746**
	43,888

DIRECTORS' REPORT

The Directors present their annual report and the audited consolidated financial statements for the year ended December 31, 2008.

PRINCIPAL ACTIVITIES

The Company is an investment company which principal business is to make direct investments in operating companies and other entities established or having significant operations in or doing business with the People's Republic of China ("PRC"). The investment philosophy of the Company is in identifying, screening, analyzing, and conducting due diligence on investment potentials in the Greater China confine, principally in wholly foreign-owned enterprises, existing or newly established sino-foreign equity joint ventures or co-operative joint ventures enterprises, 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 Group for the year ended December 31, 2008 are set out in the consolidated income statement on page 35.

The Board proposes the payment of a special final dividend of US$0.10 per share in cash from the Company's share premium account for 2008 to shareholders on its register of members on May 8, 2009, amounting to US$890,500.

SHARE CAPITAL

Details of the share capital of the Company are set out in note 20 to the consolidated financial statements.

DISTRIBUTABLE RESERVES

The Company's reserves available for distribution to shareholders as at December 31, 2008 were as follows:

	2008	2007
	US$	US$
Share premium	**24,533,935**	26,314,935
Accumulated losses	**(1,487,307)**	(519,931)
Capital reserve	**(2,316,543)**	327,462
	20,730,085	26,122,466

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

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

DIRECTORS' REPORT

INVESTMENTS

Details of the Company's holdings of listed investments and unlisted investments as at December 31, 2008 are set out on pages 9 and 12 respectively.

DIRECTORS

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

Executive Directors:
Dr. WANG Ching
Mr. WU Bin

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. LIN Bin
Mr. TSENG Ta-mon
Dr. WANG Changhong (resigned on July 15, 2008)

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, Mr. YICK Wing Fat, Simon, Mr. CAI Nongrui and Mr. CHEN Chi-chuan will retire as Directors in accordance with Article 98(b) and 98(c) of the Company's Articles and pursuant to Appendix 14 of the Listing Rules, all of these retiring directors (except for Mr. CAI Nongrui who does not offer himself for re-election), being eligible, offer themselves for re-election. All other remaining directors continue in office. The Board would like to express its gratitude to Mr. CAI for his past contributions to the Company.

DIRECTORS' SERVICE CONTRACTS

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

DIRECTORS' REPORT

INVESTMENT MANAGEMENT AND ADMINISTRATION AGREEMENT AND CONTINUING CONNECTED TRANSACTIONS

The Company's investment portfolio is managed by the investment manager (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, April 11, 2005 and March 28, 2008 respectively (collectively referred to as the "Supplemental Agreements"). The Company has to fully comply with the connected transaction requirements under the Rules Governing the Listing of Securities (the "Listing Rules") of the Stock Exchange of Hong Kong Limited (the "Stock Exchange") in respect of investment management and administration services (the "Transactions") to be provided by the Investment Manager to the Company pursuant to the aforesaid Investment Management Agreement.

In accordance with terms of the agreements, the Investment Manager is entitled to receive management fee inclusive of administration fee and an incentive fee. The investment management and administration fee is calculated in U.S. dollars and payable quarterly in advance, at the rate of 0.5% per quarter of the net asset value (calculated before deductions of the fees payable to the Investment Manager, the investment adviser and the custodian for that quarter) of the Company calculated on the last business day of the previous quarter. The Investment Manger is entitled to an incentive fee equal to 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") or assets which represent unlisted securities or interest (the "Unlisted Investment Portfolio") as at December 31 of each year exceeding 115% of that portion of the net asset value of the respective Listed Investment Portfolio or Unlisted Investment Portfolio 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 per share 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$2.60 subsequent to special dividend payouts from 2004 to 2008.

During the year ended December 31, 2008, investment management and administration fees of US$258,216 and US$220,672 were paid to the Investment Manager for the period from January 1, 2008 to June 30, 2008 and for the period from July 1, 2008 to December 31, 2008 respectively, inclusive of an incentive fee of US$261,295 paid with total amounted to US$$740,183.

DIRECTORS' REPORT

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

On April 11, 2005, the Company and the Investment Manager entered into a Fourth Supplemental Agreement, which was approved by the independent shareholders of the Company at the annual general meeting held on May 18, 2005. The terms were amended as follows:

- The appointment of the Investment Manager is extended for a term of 3 years commencing from July 1, 2005 and either the Investment Manager or the Company can terminate the appointment by giving not less than two months notice in writing to either party to expire on or within one month of June 30, 2008; and

- New caps were determined on the total fees payable to the Investment Manager during each of the following periods ("Cap"):

  – Not exceeding US$1,400,000 from July 1, 2005 to December 31, 2005

  – Not exceeding US$1,200,000 for each of the year 2006 and 2007

  – Not exceeding US$600,000 from January 1, 2008 to June 30, 2008

On March 28, 2008, the Company and the Investment Manager entered into a Fifth Supplemental Agreement, which was approved by the independent shareholders of the Company at the annual general meeting held o April 28, 2008. The terms were amended as follows:

- The appointment of the Investment Manager is extended for a term of 3 years commencing from July 1, 2008 and either the Investment Manager or the Company can terminate the appointment by giving not less than two months notice in writing to either party;

- The actual amount of special dividends (if any) paid out by the Company during the year shall be deducted from the Net Asset Value of the Company as at December 31 of the immediately preceding year when calculating the growth of the Net Asset Value of the Company;

- With effect from July 1, 2008, after adjustment on payment of special dividend in each year from 2004 to 2008, no incentive fee shall be payable to the Investment Manager if the net asset value per share of the Company at December 31 of the relevant year is less than US$2.60; and

- New Caps were determined on the total fees payable to the Investment Manager during each of the following periods ("New Cap"):

  – Not exceeding US$400,000 from July 1, 2008 to December 31, 2008

  – Not exceeding US$1,800,000 for the year of 2009

  – Not exceeding US$2,000,000 for the year of 2010

  – Not exceeding US$2,800,000 from January 1, 2011 to June 30, 2011

DIRECTORS' REPORT

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 upon procedures in respect of the continuing connected transactions of the Company. The auditors have reported their factual findings on these procedures to the Board. The INEDs have reviewed the Transactions and the report of auditor 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, 2008 to June 30, 2008 does not exceed the Cap as specified in the Fourth Supplemental Agreement and the consideration of the transactions for the period from July 1, 2008 to December 31, 2008 does not exceed the relevant New Cap specified in the Fifth Supplemental Agreement.

As at December 31, 2008, 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

None of the Directors of the Company nor their associates had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations as at December 31, 2008.

DIRECTORS' INTEREST IN CONTRACTS OF SIGNIFICANCE

Other than the Investment Management Agreement described above, no contracts of significance 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, 2008, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the Securities and Futures Ordinance 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	1,593,500	17.89%	*(1)*
Gabriel Capital Corporation	Held by controlled corporation	1,153,558	12.95%	*(1)*
Ariel Fund Limited	Beneficial owner	649,219	7.29%	*(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 Corporation Ltd.	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 1,593,500 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 Corporation Ltd..

(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 International 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 International (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, 2008.

MAJOR CUSTOMERS AND SUPPLIERS

A substantial portion of the Group's income is derived from the Company's investments and bank deposits and the 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

The Company has adopted the Model Code for Securities Transaction by Directors of Listed Issuers (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, 2008, and they have all confirmed their respective full compliance with the required standard set out in the Model Code.

AUDIT COMMITTEE

The Company's Audit Committee was established since 1999 and currently comprises Mr. YICK Wing Fat Simon (Chairman), Mr. ONG Ka Thai, Mr. CHEN Chi-chuan and Dr. HUA Min, all of whom are Non-Executive Directors of the Company, with three of them being independent. The terms of reference based on "A Guide for Effective Audit Committees" were adopted by the Board to confer the authority and duties of the Audit Committee. It meets at least twice a year with the external auditors 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.

APPOINTMENT OF INEDs

The Company has received, from each of the INEDs, an annual confirmation of his independent pursuant to Rule3.13 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited. The Company considers all of the independent non-executive directors are independent.

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 12, 2009

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 35 to 59, which comprise the consolidated balance sheet as at December 31, 2008, 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, in accordance with our agreed terms of engagement, 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, 2008 and of its loss 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 12, 2009

CONSOLIDATED INCOME STATEMENT

For the year ended December 31, 2008

	Notes	2008 US$	2007 US$
Investment income	6	**113,202**	626,219
Gain and loss on investments			
(Loss) gain on sale of investments in listed securities		**(587,960)**	4,498,146
Impairment loss recognized in respect of an investment in listed securities	8	**(446,605)**	–
Exchange gain		**83,828**	51,014
		(950,737)	4,549,160
Increase in fair value of an investment property		**–**	43,290
Operating expenses			
Investment Manager's fee	23	**(740,183)**	(548,617)
Administrative expenses			
Directors' emoluments	9	**(38,583)**	(38,425)
Other expenses	10	**(385,640)**	(367,650)
		(1,164,406)	(954,692)
(Loss) profit for the year		**(2,001,941)**	4,263,977
(Loss) earnings per share – Basic	13	**(22.5 cents)**	47.9 cents

CONSOLIDATED BALANCE SHEET

At December 31, 2008

	Notes	2008 US$	2007 US$
Non-current assets			
Interest in an associate	*14*	**2,573,161**	2,573,301
Investments in unlisted securities	*15*	**2,500,000**	2,500,000
Investments in listed securities	*16*	**268,995**	9,732,109
Investments in redeemable convertible preference shares	*17*	**7,600,000**	–
		12,942,156	14,805,410
Current assets			
Interest and other receivables and prepayments		**149,929**	180,420
Consideration receivable from disposal of listed securities	*18*	**125,649**	–
Bank balances	*19*	**8,568,022**	12,262,048
		8,843,600	12,442,468
Current liabilities			
Accrued charges		**41,429**	85,452
Amount due to Investment Manager	*23*	**123,742**	149,460
		165,171	234,912
Net current assets		**8,678,429**	12,207,556
		21,620,585	27,012,966
Capital and reserves			
Share capital	*20*	**890,500**	890,500
Reserves		**20,730,085**	26,122,466
		21,620,585	27,012,966
Net asset value per share	*21*	**2.43**	3.03

The consolidated financial statements on pages 35 to 59 were approved and authorized for issue by the Board of Directors on March 12, 2009 and are signed on its behalf by:

LIN Bin
Director

WANG Ching
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended December 31, 2008

	Share capital US$	Share premium US$	Capital reserve US$	Retained earnings/ (accumulated losses) US$	Total US$
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 and at January 1, 2008	**890,500**	**26,314,935**	**327,462**	**(519,931)**	**27,012,966**
Fair value changes of investments in listed securities recognized directly in equity *(Note i)*	**–**	**–**	**(2,644,005)**	**–**	**(2,644,005)**
Realized on disposal of listed securities	**–**	**–**	**587,960**	**–**	**587,960**
Impairment loss recognized in respect of listed securities	**–**	**–**	**446,605**	**–**	**446,605**
Loss for the year	**–**	**–**	**–**	**(2,001,941)**	**(2,001,941)**
Total recognized expenses for the year	**–**	**–**	**(1,609,440)**	**(2,001,941)**	**(3,611,381)**
Transfer to capital reserve *(Note ii)*					
– Impairment loss recognized in respect of listed securities	**–**	**–**	**(446,605)**	**446,605**	**–**
– Loss on sale of investments in listed securities	**–**	**–**	**(587,960)**	**587,960**	**–**
Dividend recognized as distribution	**–**	**(1,781,000)**	**–**	**–**	**(1,781,000)**
At December 31, 2008	**890,500**	**24,533,935**	**(2,316,543)**	**(1,487,307)**	**21,620,585**

Notes:

i. For securities that are classified as available-for-sale investments, fair value changes are dealt with in the capital reserve until the securities are 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 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 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, 2008

	2008 US$	2007 US$
Operating activities		
(Loss) profit for the year	**(2,001,941)**	4,263,977
Adjustments for:		
Interest income	**(57,049)**	(485,061)
Dividend income	**(56,153)**	(141,158)
Loss (gain) on sale of investments in listed securities	**587,960**	(4,498,146)
Impairment loss recognized in respect of listed securities	**446,605**	–
Share of results of an associate	**140**	205
Increase in fair value of an investment property	**–**	(43,290)
Operating cash flows before movements in working capital	**(1,080,438)**	(903,473)
Increase in consideration receivable from disposal of listed securities	**(125,649)**	–
Decrease in other receivables and prepayments	**30,491**	1,903
(Decrease) increase in accrued charges	**(44,023)**	39,681
(Decrease) increase in amount due to Investment Manager	**(25,718)**	1,066
Cash used in operations	**(1,245,337)**	(860,823)
Interest received	**57,049**	506,975
Dividend received	**56,153**	150,158
Net cash used in operating activities	**(1,132,135)**	(203,690)
Investing activities		
Consideration from disposal of investments	**–**	2,310,000
Proceeds from disposal of listed securities	**9,603,533**	16,555,989
Proceeds from disposal of an investment property	**–**	723,290
Purchase of listed securities	**(2,784,424)**	(12,441,390)
Purchase of unlisted securities	**–**	(2,500,000)
Purchase of an associate	**–**	(2,573,506)
Purchase of redeemable convertible preference shares	**(7,600,000)**	–
Net cash (used in) from investing activities	**(780,891)**	2,074,383
Financing activities		
Dividends paid	**(1,781,000)**	(4,452,500)
Net decrease in cash and cash equivalents	**(3,694,026)**	(2,581,807)
Cash and cash equivalents at beginning of the year	**12,262,048**	14,843,855
Cash and cash equivalents at end of the year representing bank balances	**8,568,022**	12,262,048

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2008

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 "Corporate Information" to the annual report.

The Company is an investment holding company. The principal activities of its subsidiaries are set out in note 24.

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 consolidated 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 the following amendments and interpretations ("new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") which are or have become effective.

HKAS 39 & HKFRS 7 (Amendment)	Reclassification of financial assets
HK(IFRIC) – INT 11	HKFRS 2: Group and treasury share transactions
HK(IFRIC) – INT 12	Service concession arrangements
HK(IFRIC) – INT 14	HKAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2008

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, amendments or interpretations that have been issued but are not yet effective.

HKFRSs (Amendments)	Improvements to HKFRSs [1]
HKAS 1 (Revised)	Presentation of financial statements [2]
HKAS 23 (Revised)	Borrowing costs [2]
HKAS 27 (Revised)	Consolidated and separate financial statements [3]
HKAS 32 & 1 (Amendments)	Puttable financial instruments and obligations arising on liquidation [2]
HKAS 39 (Amendment)	Eligible hedged items [3]
HKFRS 1 & HKAS 27 (Amendments)	Cost of an investment in a subsidiary, jointly controlled entity or associate [2]
HKFRS 2 (Amendment)	Vesting conditions and cancellations [2]
HKFRS 3 (Revised)	Business combinations [3]
HKFRS 7 (Amendment)	Improving disclosures about financial instruments [2]
HKFRS 8	Operating segments [2]
HK(IFRIC) – INT 13	Customer loyalty programmes [4]
HK(IFRIC) – INT 15	Agreements for the construction of real estate [2]
HK(IFRIC) – INT 16	Hedges of a net investment in a foreign operation [5]
HK(IFRIC) – INT 17	Distributions of non-cash assets to owners [3]
HK(IFRIC) – INT 18	Transfers of assets from customers [6]

[1] Effective for annual periods beginning on or after January 1, 2009 except the amendments to HKFRS 5, effective for annual periods beginning on or after July 1, 2009.
[2] Effective for annual periods beginning on or after January 1, 2009.
[3] Effective for annual periods beginning on or after July 1, 2009.
[4] Effective for annual periods beginning on or after July 1, 2008.
[5] Effective for annual periods beginning on or after October 1, 2008.
[6] Effective for transfers of assets from customers received on or after July 1, 2009.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2008

3. SIGNIFICANT ACCOUNTING POLICIES

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

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards issued by the HKICPA. 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.

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.

Investments in associates

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 associates are incorporated in these financial statements using the equity method of accounting. Under the equity method, investments in associates are carried in the 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2008

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 carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not re-translated.

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

For the purposes of presenting the 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 recognized as a separate component of equity. Such exchange differences are recognized in profit or loss in the period in which the foreign operation is disposed of.

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 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2008

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

Financial assets

The Group's financial assets are mainly classified into fair value through profit or loss, 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 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.

Interest income is recognized on an effective interest basis for debt instruments.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2008

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

Financial instruments *(Cont'd)*

Financial assets (Cont'd)

Financial assets at fair value through profit or loss ("FVTPL")

A financial asset may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and HKAS 39 permits the entire combined contract (asset or liability) to be designated as at FVTPL.

The redeemable convertible preference shares acquired by the Group comprise the host loan component and embedded derivatives (the conversion option and the redemption option) and are designated as financial assets at fair value through profit or loss on initial recognition. At each balance sheet date subsequent to initial recognition, the entire redeemable convertible preference shares are measured at fair value, with changes in fair value recognized directly in the income statement in the period in which they arise. If the convertible option component of the redeemable convertible preference shares is sufficiently significant to preclude the Group from obtaining a reliable fair value estimate of the entire instrument, the combined instrument is measured at cost less impairment.

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 available-for-sale equity investments 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 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. 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2008

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

Financial instruments *(Cont'd)*

Financial assets (Cont'd)

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

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 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.

Impairment of financial assets

Financial assets, other than those at fair value through profit or loss, 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 assets, 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-organization.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2008

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

Financial instruments *(Cont'd)*

Impairment of financial assets (Cont'd)

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 loss 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 capital reserve.

Financial liabilities and equity

Financial liabilities and equity instruments issued by a group entity 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2008

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

Financial instruments *(Cont'd)*

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 and receivable 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 and payable is recognized in profit or loss.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

Fair value of investments in redeemable convertible preference shares

The directors of the Company use their judgements in selecting an appropriate valuation technique for investment in redeemable convertible preference shares. Valuation techniques commonly used by market practitioners are applied. Preference Shares in Grandpro with fair value of US$2,600,000 are valued using a discounted cash flow analysis. Preference Shares in GMG of US$5,000,000 is stated at cost less impairment at December 31, 2008, because the range of reasonable fair value estimates is so significant that the directors of the Company are of the opinion that their fair value cannot be measured reliably.

5. FINANCIAL RISK AND CAPITAL RISK MANAGEMENT

A. Financial instruments

Categories of financial instruments

	2008 US$	2007 US$
Financial assets		
Designated as at fair value through profit or loss	7,600,000	–
Available-for-sale financial assets	2,768,995	12,232,109
Loans and receivables (including cash and cash equivalents)	8,693,671	12,262,222
Financial liabilities		
Amortized cost	123,742	149,460

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2008

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

A. Financial instruments *(Cont'd)*

Financial risk management objectives and policies

The Group's major financial instruments include investments in listed, unlisted securities and redeemable convertible preference shares, 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$8,568,022 (2007: US$4,362,127).

The Group is also exposed to fair value interest risk in relation to its fixed-rate redeemable convertible preference shares of US$2,600,000 issued in 2008 (details of which are disclosed in note 17) and short term time deposit at 31 December 2007.

Management has employed a treasury team to closely monitor interest rate movement and manage the potential risk. The Group currently does not have an interest rate hedging policy. However, management monitors interest rate change exposure and will consider hedging significant interest rate change exposure should the need arise.

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 and investments in redeemable convertible preference shares, 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 loss for the year ended December 31, 2008 would decrease/increase by US$16,851 (2007: increase/decrease in profit for the year by US$61,310). This is mainly attributable to the Group's exposure to interest rates on its variable-rate bank balances and fair value change in fixed-rate redeemable convertible preference shares.

Price risk

The Group is exposed to equity security price risk through its investments in securities and redeemable convertible preference shares. The management manages this exposure by appointing the Investment Manager to monitor the price risk and will consider hedging the risk exposure should the need arise.

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. The sensitivity analysis has excluded those arising from Preference Shares of Grandpro as the management considered that the price risk is minimal, as well as Preference Shares of GMG and unlisted securities which are measured at cost less impairment as fair value of these instruments cannot be measured reliably.

If the prices of the respective equity instruments had been 20% (2007: 5%) higher/lower, capital reserve would increase/loss would increase by US$53,799 (2007: increase/decrease in capital reserve by US$486,605) for the Group as a result of the changes in fair value of investments in listed securities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2008

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

A. Financial instruments *(Cont'd)*

Financial risk management objectives and policies (Cont'd)

Market risk (Cont'd)

Currency risk

Certain monetary assets and liabilities of the Group including bank balances, amount due to Investment Manager and investments in redeemable convertible preference shares are denominated in RMB and US$. 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$.

For a 8% weakening/strengthening of RMB against HK$ and all other variables were held constant, the Group's loss for the year ended December 31, 2008 would increase/decrease by US$63,052 (2007: decrease/increase in profit for the year by US$58,938).

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.

Other than concentration of credit risk on liquid funds which are deposited with several banks with high credit ratings consideration receivable from a single counterparty in relation to the disposal of an investment as well as investment in redeemable convertible preference shares from two counter parties , the Group does not have any other significant concentration of credit risks.

The consideration receivable from disposal of an investment is outstanding from bank with high credit rating. In this regard, the directors of the Company considered that the Group's credit risk was significantly reduced. The amount was fully settled in January 2009.

In addition, the credit risk on investments in redeemable convertible preference shares is limited because one of the investments is supported by corporate guarantee provided by a third party, Shanda Interactive Entertainment Ltd. For the other investment, management of the Group will regularly review the financial performance of the investee company and reconsider its repayment ability by reviewing their financial information and cash flow forecast.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2008

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

A. 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:

	2008 US$	2007 US$
Non-interest bearing financial liabilities		
– on demand	123,742	149,460

Fair values

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

- the fair values 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 values of other financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices or rates from observable current market transactions.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2008

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

B. 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. During the year ended December 31, 2008 and 2007, the Group has been generating operating profit to sustain its operation and development, as such, the Group has not raised external debt. 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 and reserves during December 31, 2008 and 2007.

The Group actively and regularly reviews and manages its capital structure and makes adjustments to it in light of the changes in the Group's business and economic conditions.

6. INVESTMENT INCOME

	2008 US$	2007 US$
Investment income comprises:		
Dividend income from available-for-sale investments		
– Listed securities	56,153	118,005
– Unlisted securities	–	23,153
Interest income from loans and receivables	57,049	485,061
	113,202	626,219

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 only.

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

At December 31, 2008, listed investment with significant and prolonged decline in the fair value is considered to be impaired. The cumulative loss previously recognized in capital reserve is removed from capital reserve and recognized in profit and loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2008

9. DIRECTORS' EMOLUMENTS

Except for the directors' fee payable to the independent non-executive directors totalling US$38,583 (2007: US$38,425) 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:

	2008 US$	2007 US$
Dr. HUA Min	12,861	12,808
Mr. ONG Ka Thai	12,861	12,809
Mr. YICK Wing Fat, Simon	12,861	12,808
	38,583	38,425

The Group pays emoluments to four (2007: four) individuals only, three (2007: three) of which are directors, emoluments of which are disclosed above. The emoluments of the remaining one (2007: one) individual are disclosed in note 10.

10. OTHER EXPENSES

	2008 US$	2007 US$
Other expenses include the following:		
Auditor's remuneration	27,742	20,959
Custodian fee	41,846	34,876
Staff salaries and other benefits	54,466	48,848
Retirement benefits costs *(note 22)*	5,597	5,077
Share of results of an associate	140	205

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2008

11. TAXATION

On June 26, 2008, the Hong Kong Legislative Council passed the Revenue Bill 2008 which reduced corporate profits tax rate from 17.5% to 16.5% effective from the year of assessment 2008/09. Therefore, Hong Kong Profits Tax is calculated at 16.5% (2007: 17.5%) of the estimated assessable profit for the year.

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 (loss) profit for the year as follows:

	2008		2007	
	US$	**%**	US$	%
(Loss) profit for the year	**(2,001,941)**		4,263,977	
Tax at Hong Kong Profits Tax rate	**(330,320)**	**(16.5)**	746,195	17.5
Tax effect of expenses that are not deductible for tax purposes	**304,492**	**15.2**	107,273	2.5
Tax effect of share of results of an associate	**23**	**–**	36	–
Tax effect of tax losses not recognized	**58,314**	**2.9**	59,763	1.4
Tax effect of income that is not assessable for tax purposes	**(32,509)**	**(1.6)**	(913,267)	(21.4)
Taxation for the year	**–**	**–**	–	–

At December 31, 2008, the Group has estimated unused tax losses of approximately US$4,193,000 (2007: US$3,840,000) available for offset against future profits. No deferred tax asset has been recognized in respect of such losses due to the unpredictability of taxable income in future. The losses may be carried forward indefinitely. There were no other significant temporary differences arising during the year or at the balance sheet date.

12. DIVIDENDS

	2008	2007
	US$	US$
Special final dividend paid – US$0.20 (2007: US$0.50) per share paid from the share premium account	**1,781,000**	4,452,500

Subject to approval by shareholders at the Company's annual general meeting to be held on May 8, 2009, the Company proposes a special final dividend of US$0.10 per share payable from the share premium account, in cash for 2008. A total amount of US$890,500 will be paid on or before May 29, 2009.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2008

13. (LOSS) EARNINGS PER SHARE – BASIC

The calculation of basic (loss) earnings per share is based on loss for the year of US$2,001,941 (2007: profit of US$4,263,977) and on the number of 8,905,000 (2007: 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.

14. INTEREST IN AN ASSOCIATE

	2008 US$	2007 US$
Unlisted investment, at cost	**2,573,506**	2,573,506
Share of post acquisition loss	**(345)**	(205)
	2,573,161	2,573,301

The investment represents the Group's 22.73% equity interest in Raffles International Investment Limited ("Raffles"), a company incorporated in the British Virgin Islands. Raffles is an investment holding company, holding an investment engaged in the pharmaceutical business in the People's Republic of China ("PRC").

The summarized financial information of Raffles is set out below:

	2008 US$	2007 US$
Total assets	**11,322,064**	11,322,067
Total liabilities	**(1,515)**	(901)
	11,320,549	11,321,166
Share of net assets	**2,573,161**	2,573,301
Turnover	**–**	–
Loss for the year	**(614)**	(901)
Share of results of an associate for the year	**(140)**	(205)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2008

15. INVESTMENTS IN UNLISTED SECURITIES

	2008 & 2007
	US$
Investment cost	11,243,600
Less: Accumulated impairment	(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.

CMT was incorporated in the Cayman Islands. The investment represents a 4.31% equity interest in CMT. CMT is an investment holding company of an investment engaged in the supply of construction materials in the PRC.

16. INVESTMENTS IN LISTED SECURITIES

	2008	2007
	US$	US$
Listed securities, at fair value:		
Shares listed on Hong Kong Stock Exchange	**268,995**	9,732,109

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, the unrealized gain from fair value changes of investments in listed securities of US$1,609,440 was included in capital reserve.

At December 31, 2008, no unrealized gain/loss from fair value changes of investments in listed securities was included in capital reserve.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2008

17. INVESTMENTS IN REDEEMABLE CONVERTIBLE PREFERENCE SHARES

	2008 US$	2007 US$
Series A-1 Preference Shares in Grandpro Technology Limited ("Grandpro")	2,600,000	–
Series B Preferred Shares in Global Market Group Limited ("GMG")	5,000,000	–
	7,600,000	–

During the year, the Group acquired 260 Series A-1 Preference Shares in Grandpro (the "Grandpro Preference Shares") and 1,530,769 Series B preferred shares in GMG (the "GMG Preference Shares") (collectively the "Preference Shares") for a total consideration of US$7,600,000. On August 1, 2008, the Grandpro Preferences Shares were enlarged to 2,600,000 shares subsequent to a subdivision of Grandpro's shares to US$0.0001 per share.

The Grandpro Preference Shares are convertible into ordinary shares of Grandpro at the option of the Company and will be automatically converted into ordinary shares of Grandpro upon listing of Grandpro on a recognized stock exchange which values Grandpro with a market capitalization of at least a certain specified amount. The Grandpro Preference Shares are redeemable after December 30, 2010 at 100% plus accrued interest at 10% per annum.

The GMG Preference Shares are convertible into ordinary shares of GMG at the option of the Company and will be automatically converted into ordinary shares of GMG upon listing of GMG on a recognized stock exchange which values GMG with a market capitalization of at least a certain specified amount. The GMG Preference Shares are redeemable after December 31, 2011 at 100% and will bear interest at 8% per annum from December 31, 2011.

In management's opinion, the chance of conversion to ordinary shares of the investments is remote as the investee's companies have no listing plan up to 2009. For Grandpro Preference Shares, the fair value of the embedded conversion option is minimal. The fair value of the host loan component is determined using discounted cash flow model. At December 31, 2008 the investment is stated at fair value.

For GMG Preference Shares, it is stated at cost less impairment losses at balance sheet date because the range of reasonable fair value estimates of the conversion option component is so significant that the directors of the Company are of the opinion that their fair value of the entire instrument cannot be measured reliably.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2008

18. CONSIDERATION RECEIVABLE FROM DISPOSAL OF LISTED SECURITIES

	2008	2007
	US$	US$
Consideration receivable from disposal of listed securities	**125,649**	–

The settlement terms of consideration receivable arising from the disposal in listed securities are two days after trade date. No aged analysis is disclosed as in the opinion of the Directors of the Company, the aged analysis does not give additional value in view of the nature of business of dealing in listed securities.

19. BANK BALANCES

Bank balances carry interest at market rates which range from 0.7% to 3.7% (2007: 1.5% to 5.4%) per annum. The short term bank deposit carried interest ranging from 1% to 4% per annum in 2007 and the Group has no short term bank deposit in 2008.

Included in the bank balances are the Renminbi bank balances equivalent to US$788,156 (2007: US$736,728) kept in a financial institution registered in the PRC.

20. SHARE CAPITAL

	Number of ordinary shares of US$0.1 each	**Share capital**
		US$
Authorized:		
At January 1, 2007, December 31, 2007 and December 31, 2008	18,000,000	1,800,000
Issued and fully paid:		
At January 1, 2007, December 31, 2007 and December 31, 2008	8,905,000	890,500

21. 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, 2008 of US$21,620,585 (2007: US$27,012,966) and on the number of 8,905,000 (2007: 8,905,000) ordinary shares in issue as at December 31, 2008.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2008

22. RETIREMENT BENEFITS SCHEMES

The Group operates a Mandatory Provident Fund Scheme ("the Scheme") for all qualifying employees in Hong Kong. The assets of the Scheme are held separately from those of the Group in fund under the control of trustee. The Group contributes 5% of relevant payroll costs to the Scheme, which contribution is matched by employees.

23. RELATED PARTY TRANSACTIONS

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

	2008	2007
	US$	US$
Investment management and administration fees paid and payable to Shanghai International Asset Management (Hong Kong) Company Limited (the "Investment Manager")	**478,888**	548,617
Incentive fee paid to the Investment Manager	**261,295**	–
	740,183	548,617
Amount due to Investment Manager at balance sheet date	**123,742**	149,460

In accordance with the terms of the investment management agreement and the five 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.

The Investment Manager is entitled to an incentive fee equal to 15% of the amount on top and above that portion of the net asset value of each of the assets which represent listed securities or assets which represent unlisted securities or interest as at December 31 of each year exceeding 115% of that portion of the net asset value of the respective Listed Investment Portfolio or Unlisted Investment Portfolio as at December 31 of the immediately preceding year.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2008

24. 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
		2008	2007	
Guardian Investment Growth Limited	British Virgin Islands ("BVI")	**Strike off**	100%	Inactive
Kensington Capital Investment Limited	BVI	**Strike off**	100%	Inactive

FINANCIAL SUMMARY

	Year ended December 31,				
	2004	2005	2006	2007	**2008**
	US$'000	US$'000	US$'000	US$'000	**US$'000**
RESULTS					
Income	4,635	8,952	2,186	5,219	**197**
Expenses	2,552	7,334	1,073	955	**2,199**
Profit (loss) before taxation	2,083	1,618	1,113	4,264	**(2,002)**
Taxation	–	–	–	–	**–**
Profit (loss) for the year	2,083	1,618	1,113	4,264	**(2,002)**
Earnings (loss) per share	23.4¢	18.2¢	12.5¢	47.9¢	**(22.5¢)**

	At December 31,				
	2004	2005	2006	2007	**2008**
	US$'000	US$'000	US$'000	US$'000	**US$'000**
ASSETS AND LIABILITIES					
Investment in securities	43,501	15,384	9,864	14,805	**12,942**
Others	13,873	20,539	17,853	12,208	**8,678**
Net assets	57,374	35,923	27,717	27,013	**21,620**
Net asset value per share	US$6.44	US$4.03	US$3.11	US$3.03	**US$2.43**