SHANGHAI INTERNATIONAL SHANGHAI GROWTH INVESTMENT LIMITED

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

Annual Report 2010

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

Non-Executive Directors:
Mr. CHEN Chi-chuan
Mr. LEE Tien-chieh
Mr. TSENG Ta-mon
Dr. ZHU Zhongqun
(appointed on December 8, 2010)
Mr. LIN Bin
(resigned on December 8, 2010)

COMPANY SECRETARY

Mr. LIANG Kwan Wah Andrew

INVESTMENT MANAGER

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

Room 2001, 20/F
New Shanghai International Tower
360 Pudong Road (S.)
Shanghai 200120, China

LEGAL ADVISERS

In Hong Kong:
Charltons Solicitors & Notary Public

In the Cayman Islands:
Maples and Calder

AUDITOR

Deloitte Touche Tohmatsu
Certified Public Accountants

CUSTODIAN

Standard Chartered Bank (Hong Kong) Limited

SHARE REGISTRARS AND TRANSFER OFFICE

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

REGISTERED OFFICE

P.O. Box 309, Ugland House
Grand Cayman, KY1-1104,
Cayman Islands

PRINCIPAL PLACE OF BUSINESS

Room 1707-8, 17/F, Tower 1,
New World Tower,
16-18 Queen's Road Central, Hong Kong

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 for the year ended December 31, 2010.

REVIEW OF RESULTS

The Company recorded an operating profit of US$10,230,134 for the year ended December 31, 2010, a significant growth in profit when compared with a net operating profit of US$699,768 in 2009. Such excellent results were mainly attributable to rewarding returns from the Company's unlisted investments: the Company's associate recorded significant gains on disposal of its underlying investment whose shares became listed on The Stock Exchange of Hong Kong Limited in February 2010. The Company also recorded a fair value gain of US$4 million approximately as of December 31, 2010 on a redeemable convertible preference share investment, Global Market Group Limited, which submitted its listing application with the United States Securities and Exchange Commission in November 2010. The Company achieved remarkable returns from its unlisted investments in 2010: it succeeded in exiting two of its unlisted investments, namely Raffles International Investment Limited and Grandpro Technology Limited, at 4.3 and 1.3 investment multiple respectively. Besides, the Company also received dividends of US$1,427,751 from Global Market Group Limited, the proceeds from which have been reinvested in the same group. Nonetheless, the Company recorded an impairment loss of US$2 million in the value of an unlisted investment engaged in the production and distribution of galvanized steel, the operating results of which have been adversely effected by the global economic crisis since 2008.

In 2010, the Company did not actively trade in listed securities. It received dividend income of US$29,895 (2009: US$16,685) and recorded realized gains of US$233,727 (2009: US$483,693) on disposal of listed securities investments.

Although there was a general recovery in the global capital markets, the Company nonetheless maintained a prudent investment strategy, being mindful of remaining uncertainties in 2010. The Company's listed investments portfolio recorded a year-on-year return of 7.32% for the year, over performing that of the Hang Seng Index of 5.32%.

A special final dividend of US$0.10 per share was paid by the Company for 2009 in June 2010. The Company's net asset value ("NAV") per share as at December 31, 2010 was US$3.49 after such dividend distribution, a 44.81% increase compared with US$2.41 at the end of 2009. As at the end of December 2010, the Company's share price was US$1.54 (2009: US$1.70), reflecting a 55.87% discount to NAV per share.

LIQUIDITY, FINANCIAL RESOURCES, GEARING AND CAPITAL COMMITMENT

Apart from operating and administrative expenses, the Company paid out a special dividend of US$890,500 and subscribed US$1.2 million for shares listed on the Taiwan Stock Exchange through a private placement which is subject to a lock up restriction of not more than three years. In the last quarter of 2010, the Company succeeded in exiting two of its unlisted investments that brought in cash flow of US$14.3 million. The Company's bank balances as of December 31, 2010 were US$17,028,140 (2009: US$6,666,898).

The Company did not have any bank borrowing or capital commitment on its unlisted investments at end of December 2010 and December 2009 respectively.

BOARD OF DIRECTORS' STATEMENT

EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES AND RELATED HEDGES

Except for approximately RMB5.3 million receivables and NTD49.8 million investment in listed securities, a majority of the Company'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 Company 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 Company.

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 (Hong Kong) Company Limited (the "Investment Manager").

DIVIDEND DISTRIBUTION

Subject to approval by shareholders at the annual general meeting of the Company to be held on May 12, 2011, the Board proposes a special final dividend of US$1.00 per share in cash for 2010, representing approximately a 45.87% 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 June 11, 2011 to shareholders whose names are on the Company's Register of Members on May 12, 2011.

CLOSING OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from April 30, 2011 to May 12, 2011, 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 29, 2011.

BOARD OF DIRECTORS' STATEMENT

OUTLOOK FOR 2011

After the second round of quantitative easing by the US government, liquidity in the money markets continued to increase. Low US dollar interest rate, increase in investment activities and excess liquidity may cause other nations to face inflationary pressures. Based on the pegged relationship between the Hong Kong dollar and the US dollar, Hong Kong is likely to follow the US' low interest rate trend in the coming months. The negative interest rate environment is expected to further lower the cost of investment. Although the Investment Manager anticipates improved stock market conditions in Hong Kong in the new year, it is also mindful that it will possibly become more volatile and thus will structure the Company's listed portfolio based on a strategy of well diversified stock selections with medium to low risk exposure.

On the unlisted investments side, the Board appreciates the efforts of the Investment Manager over the past years in seeking out new investment opportunities and in particular, in closely assisting with investee companies' corporate governance, management strategy and business development etc. These have resulted in a general upgrade in the quality of the Company's investment portfolio during the same period. Two unlisted investments were successfully listed in 2010 and 2011 respectively, which the Company was able to exit with remarkable returns to its shareholders. Above all, against the backdrop of Greater China with direct access to the pulsation of its economic vibrancy, and witnessing the massive influx of foreign direct investments into China coupled with the rapid growth of domestic Chinese enterprises, whether to use China as a manufacturing base or to target China's mammoth consumer market, the Company is well positioned to participate in attractive investment opportunities.

In 2011, apart from continuing with the negotiation and analysis of potential projects currently under investigation, the Investment Manager will focus on identifying and screening quality direct investment projects with listing potentials in the consumer sector such as food and beverages, apparel, housing, education, entertainment, internet and clean energy etc. In-depth analysis will be focused on business sector's prospects, competitiveness, business growth and profit earning potential. With participation in these target investments, the Company would contribute towards the investee entities' corporate governance quality and business growth strategy, bringing benefits to both investee entities and investors with viable exit alternatives such as public listings. This would help in enhancing the Company's shareholders value.

For and On behalf of the Board,
Dr. WANG Ching
Executive Director

Hong Kong, March 17, 2011

MANAGEMENT DISCUSSION AND ANALYSIS

ECONOMIC REVIEW

China Economy

China's major economic indicators:

Growth (year-on-year, per cent.)	**2010**	2009
Gross domestic product ("GDP")	**10.3**	9.2
Value added industrial output	**15.7**	11.0
Retail sales	**18.4**	15.5
Consumer price index ("CPI")	**3.3**	-0.7
Fixed asset investments ("FAI")	**23.8**	30.1
Actual foreign direct investments	**17.4**	6.2
Exports	**31.3**	-15.9
Imports	**38.7**	-11.3
Trade surplus (US$ billion)	**183.1**	198.2
Foreign exchange reserve (US$ billion)	**2,847**	2,399

Source: Published information

In 2010, China maintained strong economic growth, with GDP growth reaching double digit for the first two quarters and ended up with a 10.3% annual increase year-on-year; a 1.1 percentage point rise from last year. The China government enforced several policies in tightening up home mortgage loans, for the purpose of slowing down price surges in real properties. On the consumer front, CPI picked up the pace in responding to economic growth, indices recorded in November and December were 5.1% and 4.6% respectively. Therefore, banks were once again being asked to lift the required deposit reserve ratio in the month of October and December of 0.25 percentage point each, finally reaching 18.5%, which was a historical high.

On the international stage, China was pressured by other western countries on the subject of whether its RMB should appreciate in order to keep up with the strong China economic growth and to reduce trade deficits of other nations. By the end of 2010, RMB has appreciated by as much as 3%. However, increases in commodity prices and currency appreciation have caused an increase in production cost for many manufacturers in China, resulting in margin squeezes.

MANAGEMENT DISCUSSION AND ANALYSIS

ECONOMIC REVIEW *(Cont'd)*

Global Economy

The situation in Europe was relatively difficult, as Greece, Ireland, Portugal and Spain were all reported to be in sovereign debt crisis at different levels. The Eurozone was constantly threatened by credit rating downgrades of its members by credit rating agencies. The downturn in Europe has shown no sign of stopping in the near term, the IMF may therefore need to offer more bailouts in the future in order to maintain the functionality and foundation of the Euro system.

In the US, the long talked about economic recovery was rather unapparent, despite GDP growth getting back to small positive figures. Unemployment rate however remained high throughout the whole year, close to 10%. The US government sensed that the recovery was actually slower than anticipated and lacked momentum; a second round of quantitative easing was consequently launched. The US Federal Reserve started to buy back some long-term treasuries through open market operations. The results and consequences of the second quantitative easing may not become apparent soon; the US economy may well stay sluggish for a little while longer.

Hong Kong was also facing the problem of a real estate bubble forming, with its government trying to step on the brakes by increasing stamp duty on short-term property transactions. Continued investments in the Hong Kong equity market as well as into China are expected to induce continued liquidity flow into the Hong Kong money market.

MANAGEMENT DISCUSSION AND ANALYSIS

ECONOMIC REVIEW *(Cont'd)*

Relevant stock markets' performance in 2010

Indices	December 31, 2010	December 31, 2009	Change
Hang Seng Index "HSI"	**23,035.45**	21,872.50	5.32%
Hang Seng China Enterprises Index "HSCEI"	**12,692.43**	12,794.13	-0.79%
Hang Seng China-Affiliated Corporations (Red Chip) Index "HSCCI"	**4,170.15**	4,059.89	2.72%
Shanghai A-Share Stock Price Index "Shanghai A"	**2,940.24**	3,437.46	-14.46%
Shenzhen A-Share Stock Price Index "Shenzhen A"	**1,351.14**	1,261.26	7.13%
SHSN300 Index – CSI 300 Index	**3,128.26**	3,575.68	-12.51%
Taiwan Exchange Index "TAIEX"	**8,972.50**	8,188.11	9.58%
Dow Jones Industrial Average Index "DOW JONES"	**11,577.50**	10,428.05	11.02%
Standard and Poor's 500 Index "S&P 500"	**1,257.64**	1,115.10	12.78%
NASDAQ Composite Index "NASDAQ"	**2,652.87**	2,269.15	16.91%

Source: Bloomberg

THE COMPANY'S PORTFOLIO ALLOCATION

	December 31, 2010	December 31, 2009
Unlisted investments	**35%**	61%
Listed investments	**11%**	2%
Cash and cash equivalents	**54%**	37%
Total	**100%**	100%

MANAGEMENT DISCUSSION AND ANALYSIS

LISTED INVESTMENTS REVIEW

Although global capital markets embarked on a general recovery, the Company maintained a prudent investment strategy on segment and stock selection with the adoption of a well functioned risk management mechanism. The Company's listed investment portfolio recorded a return of 7.32% for the year, which slightly outperformed the Hang Seng Index's 5.32%.

LISTED SECURITIES PORTFOLIO

As at December 31, 2010

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$
China Mobile Limited	Cellular telecommunications	38,000	0.000189	367,192	376,881	1.21	8,486
Tencent Holdings Ltd.	Provision of Internet and mobile value-added services	14,800	0.000806	316,405	321,140	1.04	–
China Coal Energy Co., Ltd. – H shares	Production, sales and trading of coal	45,000	0.001095	71,262	70,183	0.23	–
Trony Solar Holdings Co., Ltd.	Production of thin film solar modules	423,000	0.02667	296,419	307,038	0.99	–
China Merchant Bank Co., Ltd. – H shares	Banking	133,100	0.003404	349,083	335,490	1.08	2,190
China Pacific Insurance Group Co., Ltd.	Life and property insurance products	75,000	0.003242	286,384	311,219	1.00	2,176
China Datang Corporation Renewable Power Co. Ltd. – H shares	Operation for renewable energy generation of wind power projects	1,000,000	0.03942	302,637	273,642	0.88	–
C-Media Electronics Inc.	Design of audio ICs	1,000,000	1.2988	1,259,314	1,531,676	4.93	–
Other listed securities				–	–	–	17,043
Total investment in listed securities				3,248,696	3,527,269	11.36	29,895

MANAGEMENT DISCUSSION AND ANALYSIS

LISTED INVESTMENTS REVIEW *(Cont'd)*

LISTED SECURITIES PORTFOLIO

As at December 31, 2009

Name of 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 Mobile Limited	Cellular telecommunication	23,000	0.0001	158,635	159,703	0.74	–
Kingsoft Corporation Limited	Computer games and software	80,000	0.0073	58,974	66,231	0.31	–
China Pacific Insurance (Group) Company Ltd.	Life and property insurance products	41,000	0.0018	150,711	163,372	0.76	–
Other listed securities				–	–	–	16,685
Total investment in listed securities				368,320	389,306	1.81	16,685

MANAGEMENT DISCUSSION AND ANALYSIS

UNLISTED INVESTMENTS REVIEW

In 2010, along with the expected strong appreciation in RMB and an improvement in its economic climate, China's venture capital and private equity investment sectors are getting back on track when compared with 2009. Figures indicate overall capital raised from venture capital during the first half of 2010 have already matched the total amount raised in 2009. Furthermore, the pace of raising RMB denominated investment funds has surpassed that of foreign currency denominated funds.

The China State Council passed a decision in principle on Accelerating the Fostering and Development of New Strategic Industries during its general meeting on September 8, 2010. It identified seven significant national strategic new industries, including energy conservation and environmental protection, new-generation information technology, biological, high-end equipment manufacturing, new energy resources, new material and new energy automobile. These industries will be seen as weather vanes for venture capital investments. Furthermore, the Financial Regulatory Department has been actively reviewing and structuring the Qualified Foreign Limited Partner ("QFLP") Scheme. If this is implemented, it will further enhance China's venture capital market and satisfy the increasing working capital requirement of domestic enterprises for their business development.

The Investment Manager screened many potential projects in 2010 covering many sectors such as food and beverages, children's products, overseas education, photovoltaic products, on-line entertainment, chips design and medical equipment; some of which due diligence had been thoroughly carried out. In May 2010, the Company participated in a private placement of new common shares launched by C-Media Electronics Inc. (stock code 6237.TW), which is engaged in the design of audio chips and is an over-the-counter listing on the Taiwan GreTai Securities Market. Total investment amount was US$1.2 million approximately, and such shares are subject to a lockup restriction of not more than three years. This investment is classified as an investment in listed securities.

In terms of exited investments, the Company successfully exited from its investment in an associate, Raffles International Investment Limited ("Raffles"), whose underlying investment became listed on the Hong Kong Stock Exchange in February 2010. The Company received US$11 million from Raffles by way of cash distributions subsequent to the disposal of the listed shares. By the end of October 2010 it has fully exited from Raffles and recorded an overall return on investment of 330%.

Another exited investment was an investment in redeemable preference shares in Grandpro Technology Limited. The Company exercised its redemption right on maturity of the redeemable preference shares and received full investment principal and interest in aggregate of US$3,368,000 on December 30, 2010.

MANAGEMENT DISCUSSION AND ANALYSIS

UNLISTED INVESTMENTS REVIEW *(Cont'd)*

UNLISTED INVESTMENTS PORTFOLIO

As at December 31, 2010

Invested projects	Nature of business	% of equity interest	Amount invested at cost US$	Impairment US$	Fair value changes US$	Carrying value of investment at 31.12.2010 US$	% of net asset value	Dividend income US$	Accumulated dividend income US$
China Material Technology Limited *(N1)*	Investment holding	2.96	2,500,000	(2,000,000)	–	500,000	1.61	–	–
Global Market Group Limited *(N2)*	B2B trading platform	9.67	5,847,458	–	3,952,542	9,800,000	31.56	1,427,751	1,427,751
Global Market International Limited *(N3)*	Logistics and M2C trading platform	9.67	580,293	–	–	580,293	1.87	–	–
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)	–	–	–	–	–
Total unlisted investments			11,549,751	(4,622,000)	3,952,542	10,880,293	35.04	1,427,751	1,427,751

Notes:

N1: *An investment holding company through which the Company has a 2.96% equity interest in an enterprise which is engaged in the production and sales of galvanized steel.*

N2: *An investment in redeemable convertible preference shares which translates into a 9.67% equity interest in an enterprise which is engaged in B2B trading platform.*

N3: *An investment in redeemable convertible preference shares which translates into a 9.67% equity interest in an enterprise which is engaged in logistics and manufacturer-to-consumer businesses trading platform.*

MANAGEMENT DISCUSSION AND ANALYSIS

UNLISTED INVESTMENTS REVIEW *(Cont'd)*

UNLISTED INVESTMENTS PORTFOLIO

As at December 31, 2009

Invested projects	Nature of business	% of equity interest	Amount invested at cost US$	Impairment US$	Fair value changes US$	Share of results US$	Carrying value of investment at 31.12.2009 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	–	–	(1,118)	2,572,388	11.99	–	–

Invested projects	Nature of business	% of equity interest	Amount invested at cost US$	Impairment US$	Fair value changes US$	Share of result US$	Carrying value of investment at 31.12.2009 US$	% of net asset value	Dividend income US$	Accumulated dividend income US$
Investment in unlisted securities										
China Material Technology Limited *(N2)*	Investment holding	3.36	2,500,000	–	–	–	2,500,000	11.65	–	–
Grandpro Technology Limited *(N3)*	Investment holding	2.17	2,600,000	–	500,500	–	3,100,500	14.45	–	–
Global Market Group Limited *(N4)*	B2B trading platform	8.47	5,000,000	–	–	–	5,000,000	23.31	–	–
Shanghai Hua Xin High Biotechnology Inc.	Pharmaceuticals	20.00	1,924,000	(1,924,000)	–	–	–	–	–	–
Shanghai Xinpu Transportation Co., Ltd.	Land transportation	34.90	698,000	(698,000)	–	–	–	–	–	–
			12,722,000	(2,622,000)	500,500	–	10,600,500	49.41	–	–
Total unlisted investments			15,295,506	(2,622,000)	500,500	(1,118)	13,172,888	61.40		

Notes:

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

N2: An investment holding company through which the Company acquired a 3.36% in an enterprise which is engaged in the 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 which is engaged in internet games platform.

N4: An investment in redeemable convertible preference shares which translates into an 8.47% equity interest in an enterprise which is engaged in B2B trading platform.

MANAGEMENT DISCUSSION AND ANALYSIS

UNLISTED INVESTMENTS REVIEW *(Cont'd)*

Investments exited during the year

Raffles International Investment Ltd. ("Raffles")

In September 2007, the Company subscribed for a 22.73% equity interest in Raffles for a consideration of HK$20 million, equivalent to approximately US$2,573,506. Raffles is a single purpose investment vehicle which in turn invests in Tongrui Holdings Limited ("Tongrui"). Tongrui's underlying investment is Wuxi Ruinian Industry and Commerce Co. Ltd. ("Ruinian"), which is engaged in the manufacturing and distribution of amino acid health care products.

Ruinian group of companies underwent a re-organization in 2010 to form Ruinian International Ltd. ("RIL"), which acquired the entire share capital of Tongrui from its then shareholders. On February 1, 2010, Raffles was allotted with new shares in RIL in exchange for its entire equity interest in Tongrui. The shares of RIL were listed on the Hong Kong Stock Exchange (stock code 2010.HK) on February 19, 2010.

Raffles disposed of some of its shares in RIL at the time of its global offering and the proceeds were distributed to its shareholders as special dividend. The Company received a distribution of US$745,000 in March 2010. In September 2010, Raffles disposed further shares in RIL and recorded substantial realized gains. Raffles made a second cash distribution to its shareholders on October 4, 2010 represented by a return of investment cost plus realized gains on disposal of its indirect holding of RIL's shares.

The Company subsequently disposed all its shares in Raffles by the end of October 2010, having received US$11.05 million in total including investment cost and gains, representing a 330% return on capital.

Grandpro Technology Limited ("Grandpro")

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 Grandpro's controlling shareholder, of which is a company listed on the NASDAQ, USA.

Grandpro Preference Shares matured on December 30, 2010 and since Grandpro has not consummated its listing plan, the Company exercised its redemption right and requested for full repayment of investment principal plus 3 years' accrued interest calculated from date of inception. The Company received an aggregate of US$3,368,000 on December 30, 2010, representing a 30% return on capital.

MANAGEMENT DISCUSSION AND ANALYSIS

UNLISTED INVESTMENTS REVIEW *(Cont'd)*

Current investments

China Material Technology Limited ("CMT")

The Company invested US$2.5 million in CMT in November 2007 and is currently interested in 2.96% of its equity interest. CMT, a company incorporated in the Cayman Islands, is currently holding a 100% stake in South Polar Lights Steel (Shanghai) Co. Ltd. ("SPLS"), a PRC registered company which is engaged in the production of hot-rolled galvanized steel.

Being affected by the price decline of finished goods throughout the year, together with the inability to purchase raw materials at a lower cost, SPLS's gross profit was limited as a result. Furthermore, the cut back in energy consumption and control over emission led to a decrease in domestic demand. Despite an additional capital injection of US$2 million by its existing shareholders in 2010, SPLS suffered from deficiencies in working capital for production and resulted in operating losses in the second half of 2010. At the end of 2010, the board of directors of CMT decided on a disposal plan of SPLS. While CMT continues with negotiations with potential buyers, the Company has booked an impairment of US$2 million on the fair value of this investment at the end of 2010 in view of the deteriorating operating performance and deficiencies in working capital.

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. In November 2009, GMG Preferred Shares were enlarged to 38,269,225 shares subsequent to a sub-division of GMG's shares to US$0.00004 per share. The Company's investment represented approximately 8.47% equity interest in GMG. GMG Preferred Shares are convertible into ordinary shares of GMG upon listing of its shares on a recognized stock exchange or are redeemable at 100% should listing of its shares not be consummated by end of 2011, with an interest of 8% per annum as from that date, payable over the subsequent 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.

In June 2010, GMG declared dividends to its shareholders and the Company reinvested its dividend entitlement of US$847,458 for additional GMG Preferred Shares, its equity interest rose to 9.67% as a result. Besides, for purpose of its listing plan in relation to B2B trading business, GMG decided to spin off its currently loss-making logistics and manufacturer-to-consumer ("M2C") businesses from the group to be held under a newly established investment vehicle, Global Market International Limited ("GMIL"). The Company subscribed for shares in GMIL from dividend distributed from GMG.

GMG recorded strong results in its B2B trading business in 2010. It gained recognition and support from local governments for their innovative business model and contribution to domestic manufacturers. In November 2010, GMG filed a submission to the listing regulator in the United States in preparation for a listing of its shares in the United States. Taking into account of the business growth and listing potential, GMG was valued at US$9.8 million as at December 31, 2010. Subsequent to year end, its listing application has been progressing well. However, the Company received notification on March 17, 2011 that the pricing of GMG shares has been temporarily suspended due to current market conditions.

MANAGEMENT DISCUSSION AND ANALYSIS

UNLISTED INVESTMENTS REVIEW *(Cont'd)*

New investments acquired during the year

C-Media Electronics Inc. ("C-Media")

In May 2010, the Company participated in a private placement launched by C-Media by subscribing for 1 million new shares in C-Media at an investment cost of US$1.2 million approximately. The common shares of C-Media are currently listed on the Taiwan GreTai Securities Market where the new shares will also be traded (stock code 6237.TW). By nature of this private placement, the subscribed shares are subject to a maximum of three-year lockup restriction.

C-Media specializes in the designing of audio ICs. With the combined strength of one of its strategic shareholders, they take up over 80% global market share in sound cards installed in personal computers. Apart from maintaining a steady growth in their traditional businesses, C-Media is planning to develop three new product lines such as noise reduction (ENC) technology, karaoke video and sound technology for low budget mobile phones co-development with another Taiwan listed company, and the increasingly popular mobile lottery services co-development with a Hong Kong listed company. These new product developments are expected to generate significant growth in C-Media's future revenue and profitability.

In view of C-Media's shares being traded on a stock exchange, this investment is classified as an investment in listed securities.

Global Market International Limited ("GMIL")

GMIL is an investment holding company incorporated in the Cayman Islands whose principal activities are in logistics and M2C businesses that had been spun off from GMG in September 2010. The shareholding structure of GMIL is identical to that of GMG, which declared dividends to its shareholders for subscription of shares in GMIL.

The Company was allotted 2,417,887 shares in Series A and B Preferred Shares in GMIL at a subscription cost of US$580,293 by way of re-investment of dividends distributed from GMG, representing a 9.67% equity interest in GMIL.

BIOGRAPHICAL DETAILS OF DIRECTORS

WANG Ching *(RC)*

Aged 56, 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 17 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 an INED of Minth Group Limited, China Singyes Solar Technologies Holdings Limited and Yingdes Singyes Gases Group Company Limited, all of which 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 Masters 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 37, 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 held various senior positions with foreign banking and securities institutions in the PRC. Mr. Wu has over 12 years' managerial experience in banking, securities and trust investment sectors in the 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 61, has been an INED of the Company 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 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 56, has been an INED of the Company 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 parties 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 also an INED of Singamas Container Holdings Ltd., a company listed on The Stock Exchange of Hong Kong Limited and a third party independent of the Company and connected persons of the Company. Mr. Ong was previously an INED of China Bohai Bank Limited.

Mr. Ong has over 34 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 53, has been an INED of the Company 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 28 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 Shenzhen Neptunus Interlong Bio-technique Co., Ltd. and China Singyes Solar Technologies Holdings Limited (both 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). He was also an INED and Chairman of AC of Travelsky Technology Limited (a company listed on the Stock Exchange of Hong Kong Limited) when he was subject to retirement on March 16, 2010.

BIOGRAPHICAL DETAILS OF DIRECTORS

CHEN Chi-chuan *(AC)*

Aged 53, has been a Non-Executive Director of the Company 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 51, 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 21 years of experience in financial management. Mr. Lee is currently the Vice President of the Finance Division of Ruentex Industries Limited, which is a substantial shareholder of the Company.

TSENG Ta-mon

Aged 52, 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.

ZHU Zhongqun

Aged 47, has over 19 years' managerial experience in banking, life insurance, securities and investment sectors in the PRC. From July 1991 to March 2000, Dr. Zhu held various senior positions with the People's Bank of China, China Development Bank and China Everbright Bank. In March 2000, he served as Assistant General Manager, then General Manager of the Beijing Branch of Ping An Insurance (Group) Company of China, Ltd. In February 2005, he was appointed as General Manager and Deputy Managing Director of Great Wall Life Insurance Company, Limited. Since March 2010, Dr. Zhu has been the Assistant to the General Manager of Shanghai International Group Corp. Ltd.

Dr. Zhu is a senior economist having obtained his doctorate degree in economics from the Southwestern University of Finance and Economics in 2001.

CORPORATE GOVERNANCE REPORT

This Corporate Governance Report contains information for the year ended December 31, 2010 and was prepared in accordance with Appendix 23 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

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 as set 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, 2010, 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 of all Directors, the Company confirms that all Directors comply with the Model Code during the financial year ended December 31, 2010.

INTERNAL CONTROL REVIEW

The Company's system of internal controls was reviewed and reported to the Board during the first half of 2010 by an independent qualified accountant. The resultant Internal Audit Report, 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 followed the guidelines and procedures 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 28 under the heading "Investment Management and Administration Agreement and Continuing Connected Transactions".

CORPORATE GOVERNANCE REPORT

BOARD OF DIRECTORS *(Cont'd)*

Composition

The Board comprises nine Directors of whom two are Executive Directors, four are Non-executive Directors and three are Independent Non-executive Directors ("INEDs"). Certain change in directorship occurred during 2010 and this is reflected under "Corporate Information" at the beginning of this report and the 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 2010 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, 2010 was:

Number of meetings held			Five (5)
Name of Director	**Attendance**	**Name of Director**	**Attendance**
Dr. WANG Ching	5/5	Mr. LIN Bin (resigned on December 8, 2010)	5/5
Mr. WU Bin	5/5	Mr. LEE Tien-chieh	5/5
Dr. HUA Min	4/5	Mr. TSENG Ta-mon	4/5
Mr. ONG Ka Thai	5/5	Mr. CHEN Chi-chuan	4/5
Mr. YICK Wing Fat Simon	5/5	Dr. ZHU Zhongqun (appointed on December 8, 2010)	0/5

As at December 31, 2010, certain Directors of the Company, namely Dr. WANG Ching, Mr. WU Bin and Dr. ZHU Zhongqun, 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, 2010. 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, 2010. 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 less than one-third) shall retire from office by rotation, including those appointed for a specific term.

3. Directors are subject to retirement by rotation at least once every three years or such other period as the recognized stock exchange may from time to time prescribe.

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

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

Independent Non-Executive Directors

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

NOMINATION PROCEDURES AND CRITERIA

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

Current practice to appoint new directors is that all valid nomination of candidates, accompanied with details of their biographical backgrounds, for directorships in the Company would be presented to the Board for consideration as soon as practicable. Consideration would be given to factors such as the candidate's integrity, experience and qualifications relevant to the Company's business. It is believed that members of the Board collectively would have the required professional knowledge and skills to identify, 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 2010 financial year. Members of the Audit Committee for the year ended December 31, 2010 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 auditor was 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 auditor and senior staff of the Company for information.

During 2010, 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 2010. It has also reviewed the half-year results for the period ended June 30, 2010 and the annual results for the year ended December 31, 2010 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. One meeting was held during the 2010 financial year, which was attended by all members but for Dr. HUA Min. In 2010 the Remuneration Committee has reviewed current remuneration policies of the Company for its staff member, and that of its INEDs by reference to market comparables. 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 auditor of the Company, Messrs. Deloitte Touche Tohmatsu, with regard to their reporting responsibilities on the Company's financial statements, is set out in the Independent Auditor's Report on pages 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.

AUDITOR'S REMUNERATION

For the year ended December 31, 2010, services provided to the Company by its external auditor, Deloitte Touche Tohmatsu, and the respective fees paid were:

	2010
	US$
Audit services	**27,493**
Taxation compliance and other services	**18,575**
	46,068

DIRECTORS' REPORT

The Directors present their annual report and the audited financial statements for the year ended December 31, 2010.

PRINCIPAL ACTIVITIES

The Company is an investment company whose 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 venture 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 Company for the year ended December 31, 2010 are set out in the statement of comprehensive income on page 35.

The Board proposes the payment of a special final dividend of US$1.00 per share in cash from the Company's share premium account for 2010 to shareholders on its register of members on May 12, 2011, amounting to US$8,905,000.

SHARE CAPITAL

Details of the share capital of the Company are set out in note 19 to the financial statements.

DISTRIBUTABLE RESERVES OF THE COMPANY

The Company's reserves available for distribution to shareholders as at December 31, 2010 were as follows:

	2010	2009
	US$	US$
Share premium	**22,752,935**	23,643,435
Accumulated losses	**(2,908,813)**	(2,207,132)
Capital reserve	**10,313,438**	(875,964)
	30,157,560	20,560,339

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 statement of comprehensive income are transferred to the capital reserve in the period in which they arise.

DIRECTORS' REPORT

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

Non-Executive Directors:
Mr. CHEN Chi-chuan
Mr. LEE Tien-chieh
Mr. TSENG Ta-mon

Dr. ZHU Zhongqun	(appointed on December 8, 2010)
Mr. LIN Bin	(resigned on December 8, 2010)

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

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

DIRECTORS' SERVICE CONTRACTS

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

DIRECTORS' REPORT

INVESTMENT MANAGEMENT AND ADMINISTRATION AGREEMENT AND CONTINUING CONNECTED TRANSACTIONS

The Company's investment portfolio is managed by Shanghai International Asset Management (H.K.) Co., Ltd. (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 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 the 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 US dollars and payable quarterly in advance, at the rate of 0.5% per quarter of the net asset value (calculated before deduction of the fees payable to the Investment Manager, the investment adviser and the custodian for that quarter) of the Company calculated on the last business day of the previous quarter. The Investment Manager is entitled to an incentive fee equal to 15% of the amount over and above that portion of the net asset value of each of the assets which represent 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 during 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 is now adjusted to US$2.40 subsequent to special dividend payouts in 2004 to 2010.

During the year ended December 31, 2010, investment management and administration fees of US$1,837,347 were payable to the Investment Manager, such amount is inclusive of an incentive fee of US$1,306,530, which will be paid at a later period.

DIRECTORS' REPORT

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

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 on 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; and

- The incentive fee is to be calculated at 15% of the excess amount by which the net asset value of the Company as at December 31 of each year exceeds 115% of the net asset value of the Company as at December 31 of the immediately preceding year. 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 t he Company as at December 31 of the immediately preceding year when calculating the growth of the net asset value of the Company; and

- With effect from July 1, 2008, after adjustment on payments 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

The Company's auditor was engaged to report on the Company's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditor has issued his unqualified letter containing his findings and conclusions in respect of the continuing connected transactions disclosed by the Company on pages 27 to 28 of the Annual Report in accordance with Main Board Listing Rule 14A.38. A copy of the auditor's letter has been provided by the Company to The Stock Exchange of Hong Kong Limited. The INEDs of the Company have reviewed the Transactions and the report of the auditor and confirmed that (i) the Transactions have been entered into by the Company in the ordinary and usual course of its 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 year ended December 31, 2010 does not exceed the New Cap specified in the Fifth Supplemental Agreement.

As at December 31, 2010, Dr. WANG Ching, Mr. WU Bin and Dr. ZHU Zhongqun are also directors of the Investment Manager.

DIRECTORS' REPORT

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES

None of the Directors or 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, 2010.

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

DIRECTORS' REPORT

SUBSTANTIAL SHAREHOLDERS

As at December 31, 2010, 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. Bart M. Schwartz	Receiver of Gabriel Capital, L.P. and Ariel Fund Limited	1,068,657	12.00%	*(1)*
Mr. J. Ezra Merkin	Held by controlled corporation	494,843	5.56%	*(1)*
Gabriel Capital Corporation	Held by controlled corporation	1,131,841	12.71%	*(1)*
Ariel Fund Limited	Beneficial owner	636,998	7.15%	*(1)*
Mr. Hsu Sheng-yu	Held by controlled corporation	1,063,040	11.94%	*(2)*
Chung Chia Co., Ltd.	Beneficial owner	590,743	6.63%	*(2)*
Kwang Shun Co., Ltd.	Beneficial owner	472,297	5.30%	*(2)*
Ms. Hsu Tsui-hua	Held by controlled corporation	590,743	6.63%	*(3)*
Ms. Chang Hsiu-yen	Held by controlled corporation	472,297	5.30%	*(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)*
Ruentex Industries Ltd.	Beneficial owner and held by controlled corporation	592,752	6.66%	*(6)*
Ruentex Development Co., Ltd.	Beneficial owner and held by controlled corporation	563,752	6.33%	*(7)*

DIRECTORS' REPORT

SUBSTANTIAL SHAREHOLDERS *(Cont'd)*

Notes:

(1) On May 29, 2009, Mr. Bart M. Schwartz ("Receiver") was appointed as the receiver of Gabriel Capital, L.P. and Ariel Fund Limited, each of them were holding 431,659 shares and 636,998 shares of the Company respectively. Mr. J. Erza Merkin's indirect interests in the Company were reduced to 494,843 shares by virtue of his 100% control over Gabriel Capital Corporation. Besides, Gabriel Capital Corporation was also deemed to be indirectly interested in the Company through its management of Ariel Fund Limited.

(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.

(6) Apart from a direct holding of 257,000 shares in the Company, Ruentex Industries Limited has held indirect interest in the Company through its 100% ownership in Full Shine 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, 2010.

MAJOR CUSTOMERS AND SUPPLIERS

A substantial portion of the Company'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 qualifications 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 the Company's 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 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. The Company has made specific enquiry of all Directors regarding any non-compliance with the Model Code during the year ended December 31, 2010, 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 has been established since 1999 and currently comprises Mr. YICK Wing Fat Simon (Chairman), Mr. ONG Ka Thai, Dr. HUA Min and Mr. CHEN Chi-chuan, all of whom are Non-Executive Directors of the Company, with three of them being independent. The terms of reference based on "A Guide for Effective Audit Committees" were adopted by the Board to confer the authority and duties of the Audit Committee. It meets at least twice annually with the external auditor to discuss the interim results and annual audit.

The Audit Committed 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 INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received, from each of the INEDs, an annual confirmation of his independence pursuant to Rule 3.13 of the Rules Governing the Listing Securities on the Stock Exchange of Hong Kong Limited. The Company considers all of its INEDs are independent.

SUFFICIENCY OF PUBLIC FLOAT

Based on the 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 17, 2011

INDEPENDENT AUDITOR'S REPORT

Deloitte.
德勤

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

We have audited the financial statements of Shanghai International Shanghai Growth Investment Limited (the "Company") set out on pages 35 to 67, which comprise the statement of financial position as at December 31, 2010, and the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of financial statements that give a true and fair view 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, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these 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 about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial statements that give a true and fair view 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 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 financial statements give a true and fair view of the state of affairs of the Company as at December 31, 2010 and of its profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
March 17, 2011

STATEMENT OF COMPREHENSIVE INCOME

For the year ended December 31, 2010

	Notes	**2010 US$**	2009 US$
Investment income	*7*	**1,468,260**	19,670
Gain and loss on investments			
Gain on sale of investments in listed securities		**233,727**	483,693
Gain on sale of investment in unlisted securities		**–**	435,400
Impairment loss recognized in respect of an investment in unlisted securities	*15*	**(2,000,000)**	–
Fair value gain on investments in redeemable convertible preference shares	*17*	**4,219,932**	500,500
Gain on disposal of an associate	*14*	**2,842,361**	–
Share of profit (loss) of an associate	*14*	**5,635,795**	(773)
Exchange gain (loss)		**11,313**	(3,088)
		10,943,128	1,415,732
Operating expenses			
Investment Manager's fee	*22*	**(1,837,347)**	(423,777)
Administrative expenses			
Directors' emoluments	*9*	**(38,607)**	(38,709)
Other expenses	*10*	**(305,300)**	(273,148)
		(2,181,254)	(735,634)
Profit for the year		**10,230,134**	699,768
Other comprehensive income (expenses)			
Available-for-sale financial assets of the Company:			
Fair value gain of available-for-sale financial assets		**491,314**	504,679
Reclassification adjustments for cumulative gain included in profit or loss upon disposal		**(233,727)**	(483,693)
Available-for-sale financial assets of an associate:			
Share of fair value gain of available-for-sale financial assets of an associate		**8,588,556**	–
Reclassification adjustment for cumulative gain included in profit or loss upon disposal		**(5,742,812)**	–
Reclassification adjustment to profit or loss on disposal of an associate	*14*	**(2,845,744)**	–
Other comprehensive income for the year		**257,587**	20,986
Total comprehensive income for the year		**10,487,721**	720,754
Earnings per share – Basic	*13*	**114.88 cents**	7.86 cents

STATEMENT OF FINANCIAL POSITION

At December 31, 2010

	Notes	2010 US$	2009 US$
Non-current assets			
Interest in an associate	14	–	2,572,388
Investments in unlisted securities	15	500,000	2,500,000
Investments in listed securities	16	3,527,269	389,306
Investments in redeemable convertible preference shares	17	580,293	5,000,000
		4,607,562	10,461,694
Current assets			
Investments in redeemable convertible preference shares	17	9,800,000	3,100,500
Other receivables and prepayments		981,720	936,535
Consideration receivable from disposal of unlisted securities		–	439,354
Bank balances	18	17,028,140	6,666,898
		27,809,860	11,143,287
Current liabilities			
Accrued charges		45,469	27,942
Amount due to Investment Manager	22	1,323,893	126,200
		1,369,362	154,142
Net current assets		26,440,498	10,989,145
		31,048,060	21,450,839
Capital and reserves			
Share capital	19	890,500	890,500
Reserves		30,157,560	20,560,339
		31,048,060	21,450,839
Net asset value per share	20	3.49	2.41

The financial statements on pages 35 to 67 were approved and authorized for issue by the Board of Directors on March 17, 2011 and are signed on its behalf by:

WANG Ching
Director

WU Bin
Director

STATEMENT OF CHANGES IN EQUITY

For the year ended December 31, 2010

	Share capital US$	Share premium US$	Capital reserve US$	Accumulated losses US$	Total US$
At January 1, 2009	890,500	24,533,935	(2,316,543)	(1,487,307)	21,620,585
Fair value changes of available-for-sale financial assets *(Note i)*	–	–	504,679	–	504,679
Reclassification adjustment for the cumulative gain included in profit or loss upon disposal of available-for-sale financial assets	–	–	(483,693)	–	(483,693)
Profit for the year	–	–	–	699,768	699,768
Total comprehensive income for the year	–	–	20,986	699,768	720,754
Transfers to capital reserve *(Note ii)*					
– Gain on sale of investments in securities	–	–	919,093	(919,093)	–
– Fair value changes of investments in redeemable convertible preference shares	–	–	500,500	(500,500)	–
Dividend recognized as distribution *(Note 12)*	–	(890,500)	–	–	(890,500)
At December 31, 2009	890,500	23,643,435	(875,964)	(2,207,132)	21,450,839
Fair value changes of available-for-sale financial assets *(Note i)*	**–**	**–**	**491,314**	**–**	**491,314**
Reclassification adjustment for cumulative gain included in profit or loss upon disposal of available-for-sale financial assets	**–**	**–**	**(233,727)**	**–**	**(233,727)**
Share of fair value gain of available-for-sale financial assets of an associate	**–**	**–**	**8,588,556**	**–**	**8,588,556**
Reclassification adjustment to profit or loss upon disposal of available-for-sale financial assets of an associate	**–**	**–**	**(5,742,812)**	**–**	**(5,742,812)**
Reclassification adjustment to profit or loss on disposal of an associate	**–**	**–**	**(2,845,744)**	**–**	**(2,845,744)**
Profit for the year	**–**	**–**	**–**	**10,230,134**	**10,230,134**
Total comprehensive income for the year	**–**	**–**	**257,587**	**10,230,134**	**10,487,721**
Transfers to capital reserve *(Note ii)*					
– Gain on sale of investments in securities	**–**	**–**	**233,727**	**(233,727)**	**–**
– Share of profit of an associate	**–**	**–**	**5,635,795**	**(5,635,795)**	**–**
– Gain on disposal of an associate	**–**	**–**	**2,842,361**	**(2,842,361)**	**–**
– Impairment loss in unlisted securities	**–**	**–**	**(2,000,000)**	**2,000,000**	**–**
– Fair value gain on investments in redeemable convertible preference shares	**–**	**–**	**4,219,932**	**(4,219,932)**	**–**
Dividend recognized as distribution *(Note 12)*	**–**	**(890,500)**	**–**	**–**	**(890,500)**
At December 31, 2010	**890,500**	**22,752,935**	**10,313,438**	**(2,908,813)**	**31,048,060**

STATEMENT OF CHANGES IN EQUITY

For the year ended December 31, 2010

Notes:

i. For securities that are classified as available-for-sale financial assets, 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 reclassified to profit or loss.

ii. As required by the Company's Articles of Association, gains and losses on realization and revaluation of investments shall not be available for distribution as dividend. Therefore, those gains and losses on investments recognized in the profit or loss are transferred to the capital reserve in the period in which they arise.

STATEMENT OF CASH FLOWS

For the year ended December 31, 2010

	Notes	2010 US$	2009 US$
Operating activities			
Profit for the year		10,230,134	699,768
Adjustments for:			
Interest income		(10,614)	(2,985)
Dividend income		(1,457,646)	(16,685)
Gain on sale of investments in listed securities		(233,727)	(483,693)
Gain on sale of investments in unlisted securities		–	(435,400)
Impairment loss recognized in unlisted securities		2,000,000	–
Fair value gain of investments in redeemable convertible preference shares		(4,219,932)	(500,500)
Share of results of an associate		(5,635,795)	773
Gain on disposal of an associate		(2,842,361)	–
Operating cash flows before movements in working capital		(2,169,941)	(738,722)
(Increase) decrease in other receivables and prepayments		(45,185)	1,550
Increase (decrease) in accrued charges		17,527	(13,487)
Increase in amount due to Investment Manager		1,197,693	2,458
Cash used in operations		(999,906)	(748,201)
Interest received		10,614	2,985
Dividends received		1,457,646	16,685
Net cash generated from (used in) operating activities		468,354	(728,531)
Investing activities			
Proceeds from disposal of listed securities		3,738,182	4,993,331
Distributions received from an associate	14	11,050,544	–
Proceeds from redemption of convertible preference shares		3,367,890	–
Purchase of listed securities		(5,945,477)	(4,487,268)
Purchase of redeemable convertible preference shares		(1,427,751)	–
Net cash generated from investing activities		10,783,388	506,063
Financing activity			
Dividends paid		(890,500)	(890,500)
Net increase (decrease) in cash and cash equivalents		10,361,242	(1,112,968)
Cash and cash equivalents at beginning of the year		6,666,898	7,779,866
Cash and cash equivalents at end of the year representing bank balances		17,028,140	6,666,898

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2010

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

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

In the current year, the Company has applied a number of new and revised Standards and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") that are mandatorily effective for 2010 financial year ends.

The application of the new and revised Standards and Interpretations in the current year has had no material effect on the amounts reported in these financial statements and disclosures set out in these financial statements.

The Company 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 issued in 2010 except for the amendments to HKFRS 3 (as revised in 2008), HKAS 1 and HKAS 28[1]
HKFRS 7 (Amendments)	Disclosures – Transfers of financial assets[3]
HKFRS 9	Financial instruments[4]
HKAS 12 (Amendments)	Deferred tax: Recovery of underlying assets[5]
HKAS 24 (as revised in 2009)	Related party disclosures[6]
HKAS 32 (Amendments)	Classification of rights issues[7]
HK (IFRIC) – INT 14 (Amendments)	Prepayments of a minimum funding requirement[6]
HK (IFRIC) – INT 19	Extinguishing financial liabilities with equity instruments[2]

1 Effective for annual periods beginning on or after July 1, 2010 or January 1, 2011, as appropriate.
2 Effective for annual periods beginning on or after July 1, 2010.
3 Effective for annual periods beginning on or after July 1, 2011.
4 Effective for annual periods beginning on or after January 1, 2013.
5 Effective for annual periods beginning on or after January 1, 2012.
6 Effective for annual periods beginning on or after January 1, 2011.
7 Effective for annual periods beginning on or after February 1, 2010.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2010

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

HKFRS 9 "Financial Instruments" (as issued in November 2009) introduces new requirements for the classification and measurement of financial assets. HKFRS 9 "Financial Instruments" (as revised in November 2010) adds requirements for financial liabilities and for derecognition.

- Under HKFRS 9, all recognized financial assets that are within the scope of HKAS 39 "Financial instruments: Recognition and measurement" are subsequently measured at either amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods.

- In relation to financial liabilities, the significant change relates to financial liabilities that are designated as at fair value through profit or loss. Specifically, under HKFRS 9, for financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the presentation of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Previously, under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss was presented in profit or loss.

HKFRS 9 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted.

The directors anticipate that HKFRS 9 that will be adopted in the Company's financial statements for financial year ending December 31, 2013 and that the application of the new Standard may have an impact on amounts reported in respect of the Company's financial assets. However, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2010

3. SIGNIFICANT ACCOUNTING POLICIES

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

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

Revenue recognition

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

Interest income from a financial asset excluding financial assets at fair value through profit or loss 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 on initial recognition.

Dividend income from investments in securities is recognized when the Company'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. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

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 initially recognized in the consolidated statement of financial position at cost and adjusted thereafter to recognize the Company's share of the profit or loss and other comprehensive income of the associates. When the Company's share of losses of an associate equals or exceeds its interest in that associate (which includes any long-term interests that, in substance, form part of the Company's net investment in the associate), the Company discontinues recognizing its share of further losses. Additional losses are recognized only to the extent that the Company has incurred legal or constructive obligations or made payments on behalf of that associate.

Any excess of the cost of acquisition over the Company's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of an associate recognized at the date of acquisition is recognized as goodwill, which is included within the carrying amount of the investment.

Any excess of the Company's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognized immediately in profit or loss.

When the Company transacts with its associate, profits and losses resulting from the transactions with the associate are recognized in the Company's financial statements only to the extent of interests in the associate that are not related to the Company.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2010

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

Foreign currencies

In preparing the financial statements of the Company, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective 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 the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

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

Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for exchange differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in other comprehensive income, in which cases, the exchange differences are also recognised directly in other comprehensive income.

For the purposes of presenting the financial statements, the assets and liabilities of the Company are translated into the presentation currency of the Company (i.e. United States dollars) at the rate of exchange prevailing at the end of the reporting period, 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 in other comprehensive income and accumulated in equity (the translation reserve).

Retirement benefit costs

Payments to the Mandatory Provident Fund Scheme are charged as an expense when employees have rendered service entitling them to the 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 statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2010

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

Taxation *(Cont'd)*

Deferred tax is recognized on temporary 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. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary difference to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such assets and liabilities are not recognized if the temporary difference arises 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.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in associates, except where the Company is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of the reporting period 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 assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realized, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Deferred tax is recognized in profit or loss, except when it relates to items that are recognized in other comprehensive income or directly in equity, in which case the deferred tax is also recognized in other comprehensive income or directly in equity respectively.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2010

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

Financial instruments

Financial assets and financial liabilities are recognized in the statement of financial position when an 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 or financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in profit or loss.

Financial assets

The Company's financial assets are classified into one of the three categories, including financial assets at fair value through profit or loss ("FVTPL"), loans and receivables and available-for-sale financial assets. 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.

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 to the net carrying amount on initial recognition.

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

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including other receivables, consideration receivable from disposal of an investment and bank balances) are carried at amortized cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment loss on financial assets below).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2010

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

Financial instruments *(Cont'd)*

Financial assets (Cont'd)

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

Financial assets at FVTPL comprising investments in redeemable convertible preference shares are those designated as at FVTPL on initial recognition.

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 Company'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.

In addition, if an embedded derivative is required to be separated from its host contract, but unable to measure the embedded derivative separately either at acquisition or at the end of a subsequent financial reporting period, the entire hybrid contract is designated as at FVTPL.

Financial assets at FVTPL are measured at fair value, with changes in fair value arising from remeasurement recognized directly in profit or loss in the period in which they arise. The net gain or loss recognized in profit or loss exclude any dividend and interest earned on the financial assets.

If the range of reasonable fair value estimates is significant and the probabilities of the various estimates cannot be reasonably assessed, an entity is precluded from measuring the instrument at fair value. Once an entity becomes able to measure reliably the fair value of the financial assets at FVTPL that has previously been measured at cost, it shall measure that financial assets at FVTPL at its fair value.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2010

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

Financial instruments *(Cont'd)*

Financial assets (Cont'd)

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated or not classified as financial assets at FVTPL, loans and receivables or held-to-maturity investments. The Company designated the following investments in listed securities and unlisted securities as available-for-sale financial assets.

(i) Investments in listed securities

The Company's investments in listed equity securities are available-for-sale equity investments measured at fair value. Changes in fair value are recognized in other comprehensive income and accumulated 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 accumulated 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 other comprehensive income and accumulated capital reserve, until the financial asset is disposed of or is determined to be impaired, at which time, the cumulative gain or loss previously accumulated 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 identified impairment losses at the end of the reporting period subsequent to initial recognition.

As required by the Company's Articles of Association, gains and losses on realization and revaluation of investments shall not be available for distribution as dividend. Therefore, those gains and losses on investments recognized in profit or loss are transferred to the capital reserve in the period in which they arise.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2010

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

Financial instruments *(Cont'd)*

Financial assets (Cont'd)

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of the reporting period. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

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
- breach of contract, such as default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organization; or
- the disappearance of an active market for that financial asset because of financial difficulties.

For financial assets carried at amortized cost, an impairment loss is recognized in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

The carrying amount of the financial asset is reduced by the impairment loss directly.

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 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 other comprehensive income and accumulated in capital reserve.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2010

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

Financial instruments *(Cont'd)*

Financial liabilities and equity

Financial liabilities and equity instruments issued by the Company 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 liabilities

Financial liabilities including amount due to Investment Manager is subsequently measured at amortized cost, using the effective interest method.

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Derecognition

Financial assets are derecognized when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Company 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 in other comprehensive income 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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2010

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

Fair value of investments in redeemable preference shares

As described in note 5, the directors of the Company use their judgment in selecting an appropriate valuation technique for financial instruments not quoted in an active market. Valuation techniques commonly used by market practitioners are applied. The estimation of fair value of investments in redeemable preference shares includes the application of recent transaction price, and some assumptions based on the facts and circumstances that existed as at December 31, 2010, not supported by observable market prices or rates. The total carrying amounts of the redeemable convertible preference shares is HK$10,380,293 (December 31, 2009: 8,100,500). Details of the assumptions used are disclosed in note 5. The directors believe that the chosen valuation techniques and assumptions are appropriate in determining the fair value of financial instruments.

Estimated impairment of unlisted securities

Where there is objective evidence of impairment loss, the Company takes into consideration the estimation of future cash flows. The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows. Since the expected future cash flows are less than the carrying amount of the investment, impairment loss of US$2,000,000 was charged to profit or loss in 2010.

5. FINANCIAL INSTRUMENTS

Categories of financial instruments

	2010	2009
	US$	US$
Financial assets		
Designated as at fair value through profit or loss (“FVTPL”)	**10,380,293**	8,100,500
Available-for-sale financial assets	**4,027,269**	2,889,306
Loans and receivables (including cash and cash equivalents)	**17,971,140**	7,894,491
Financial liabilities		
Amortized cost	**1,323,893**	126,200

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2010

5. FINANCIAL INSTRUMENTS *(Cont'd)*

Financial risk management objectives and policies

The Company'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 Company is exposed to cash flow interest rate risk through the impact of rate changes on interest bearing financial assets which are mainly variable rate bank balances of US$10,900,565 (2009: US$2,589,587).

Management has employed a treasury team to closely monitor interest rate movement and manage the potential risk. The Company 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 end of the reporting period. For variable-rate bank balances, the analysis is prepared assuming the amount at the end of the reporting period was the amount for the whole year. A 5 (2009: 10) basis point increase or decrease represents management's assessment of the possible change in interest rates.

The management adjusted the sensitivity rate from 10 basis points to 5 basis points for assessing interest rate risk after considering the impact of the low market interest rates conditions in 2010.

If interest rates had been 5 (2009: 10) basis points higher/lower and all other variables were held constant, the Company's profit for the year ended December 31, 2010 would increase/decrease by US$5,450 (2009: US$2,590). This is mainly attributable to the Company's exposure to interest rates on its variable-rate bank balances.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2010

5. FINANCIAL INSTRUMENTS *(Cont'd)*

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

Market risk (Cont'd)

Price risk

The Company is exposed to price risk on its investments in securities. 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 Company's investments in listed securities to equity price risks at the end of the reporting period.

If the prices of the listed securities had been 5% (2009: 5%) higher/lower, other comprehensive income for the year ended December 31, 2010 would increase/decrease by US$176,363 (2009: US$19,465) for the Company as a result of the changes in fair value of investments in listed securities.

Currency risk

Certain monetary assets and liabilities of the Company including bank balances and amount due to Investment Manager, other receivables, investments in redeemable convertible preference shares and investment in listed securities are denominated in RMB, TWD and US$. The Company 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 arise.

Sensitivity analysis

The Company is mainly exposed to fluctuation in exchange rate of RMB and TWD against HKD. As HKD 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 Company's sensitivity to an 8% with TWD and 3.5% with RMB (2009: 8% with RMB only) increase/decrease against HKD.

The management adjusted the sensitivity rate between HKD and RMB from 8% in 2009 to 3. 5% in 2010 for assessing the currency risk after considering the average exchange rate between HKD and RMB in 2010.

For RMB and TWD weakening/strengthening against HKD and all other variables were held constant, the Company's profit for the year ended December 31, 2010 would decrease/increase by US$164,534 (2009: US$63,059).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2010

5. FINANCIAL INSTRUMENTS *(Cont'd)*

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

Credit risk

The Company's maximum exposure to credit risk in the event of the counterparties' failure to perform their obligations at the end of the reporting period in relation to each class of recognized financial assets is the carrying amount of those assets stated in the statement of financial position.

Other than concentration of credit risk on liquid funds which are deposited with several banks with high credit ratings and investments in redeemable convertible preference shares, the Company does not have any other significant concentration of credit risks.

For the other investment, management of the Company will regularly review the financial performance of the investee company and reconsider its repayment ability by reviewing its financial information and cash flow forecast.

Liquidity risk

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

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

	2010	2009
	US$	US$
Non-interest bearing financial liabilities		
– on demand	**1,323,893**	126,200

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2010

5. FINANCIAL INSTRUMENTS *(Cont'd)*

Fair values

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

- the fair values of financial assets with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market bid prices;
- 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; and
- the fair value of derivative instruments is calculated using option pricing models.

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

Fair value measurements recognized in the statement of financial position

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active market for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the assets or liability that are not based on observable market data (unobservable inputs).

	December 31, 2010			
	Level 1 US$	Level 2 US$	Level 3 US$	Total US$
Financial assets at FVTPL				
Redeemable convertible preference shares	–	–	10,380,293	10,380,293
Available-for-sale financial assets				
Listed securities	3,527,269	–	–	3,527,269
Total	3,527,269	–	10,380,293	13,907,562

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2010

5. FINANCIAL INSTRUMENTS *(Cont'd)*

Fair values *(Cont'd)*

Fair value measurements recognized in the statement of financial position (Cont'd)

	December 31, 2009			
	Level 1 US$	Level 2 US$	Level 3 US$	Total US$
Financial assets at FVTPL				
Redeemable convertible preference shares	–	–	3,100,500	3,100,500
Available-for-sale financial assets				
Listed securities	389,306	–	–	389,306
Total	389,306	–	3,100,500	3,489,806

There were no transfers between Level 1 and 2 in the current year.

Reconciliation of Level 3 fair value measurements of financial assets

	Redeemable convertible preference shares US$
At January 1, 2009	**2,600,000**
Total gain in profit or loss (included in "fair value gain on investments in redeemable convertible preference shares")	**500,500**
At December 31, 2009	**3,100,500**
Total gain in profit or loss (included in "fair value gain on investments in redeemable convertible preference shares")	**4,219,932**
Redemption during the year	**(3,367,890)**
Transfer into level 3 *(note)*	**5,847,458**
Purchase	**580,293**
At December 31, 2010	**10,380,293**

Note: The transfer relates to the investments in redeemable convertible preferred shares in Global Market Group Limited ("GMG"). In previous year, the investment was stated at cost less impairment losses, whereas, such investment is stated at fair value in 2010 and hence is included in the above reconciliation.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2010

5. FINANCIAL INSTRUMENTS *(Cont'd)*

Significant assumptions used in determining fair value of financial assets

Redeemable convertible preference shares

As at December 31, 2010, the holdings of redeemable convertible preference shares in GMG are measured at fair value (note 17). The directors consider that the variability in the range of reasonable fair value estimates is not significant and the probabilities of the various estimates within the range can be reasonably assessed and used in estimating fair value. Fair value is estimated using a discounted cash flow model on the scenario that the Company will exercise the conversion, which also included some assumptions based on the facts and circumstances that existed as at December 31, 2010, that are not supportable by observable market prices or rates. In determining the fair value, an earnings growth factor of 4.5% and a risk adjusted discount factor of 18.7% are used. In addition, the expected minimum market capitalisation and the probability of successful rate of initial public offering of GMG had been taken into account for valuation purpose. The total amount of the change in fair value estimated using a valuation technique that was recognized in the profit or loss during the year is US$3,952,542. If these inputs (growth rate and discount rate) to the valuation model were 10% higher (lower) while all the other variables were held constant, the carrying amount of the shares would decrease/increase by US$616,000/US$777,000 respectively.

As at December 31, 2009, the holding of redeemable convertible preference shares in Grandpro Technology Limited are measured at fair value (note 17). As the Board was of the opinion that the chance of converting the preference shares into their respective listed ordinary shares are remote, the fair value of redeemable convertible preference shares was estimated with reference to the host loan component which was determined using the discounted cash flow model. At December 31, 2009, the investment was stated at fair value of US$3,100,500 which implied a fair value gain of approximately US$500,500 to the investment cost.

6. CAPITAL RISK MANAGEMENT

The Company manages its capital to ensure the Company will be able to continue as a going concern while maximizing the return to stakeholders. During the year ended December 31, 2010, the Company has been generating operating profit to sustain its operation and development. The Company retained sufficient bank balances for operations, as such, the Company has not raised external debt in both years. The Company's overall strategy remains unchanged from prior year.

The capital structure of the Company consists of equity attributable to owners of the Company, comprising issued share capital and reserves during December 31, 2010 and 2009.

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2010

7. INVESTMENT INCOME

	2010 US$	2009 US$
Investment income comprises:		
Dividend income from listed securities	**29,895**	16,685
Dividend income from redeemable convertible preference shares	**1,427,751**	–
Interest income from bank balances	**10,614**	2,985
	1,468,260	19,670

8. SEGMENT INFORMATION

Information reported to the executive directors, the chief operating decision makers of the Company, is focused on the categories of the investments. The Company's operating and reportable segments under HKFRS 8 are as follows:

Listed securities – Investments in securities listed on relevant stock exchanges

Unlisted securities – Investments in unlisted securities, redeemable convertible preference shares and interest in an associate

The following is an analysis of the Company's results by reportable segment.

Segment revenues and results

Year ended December 31, 2010

	Listed securities US$	Unlisted securities US$	Total US$
Segment result	**263,622**	**12,125,839**	**12,389,461**
Interest income from bank balances			**10,614**
Unallocated expenses			**(2,169,941)**
Profit for the year			**10,230,134**

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2010

8. SEGMENT INFORMATION *(Cont'd)*

Segment revenues and results *(Cont'd)*

Year ended December 31, 2009

	Listed securities US$	Unlisted securities US$	Total US$
Segment result	500,378	935,127	1,435,505
Interest income from bank balances			2,985
Unallocated expenses			(738,722)
Profit for the year			699,768

The accounting policies of the reportable segments are the same as the Company's accounting policies described in note 3.

Segment result represents gain (loss) on sale of investments in listed, unlisted securities, gain on disposal of an associate, share of results of an associate, impairment loss recognized in respect of an investment in unlisted securities, fair value gain on investment in redeemable convertible preference shares and the corresponding dividend income earned by each segment without allocation of central administrative expenses and fees to the Investment Manager. This is the measure reported to the executive management for the purpose of resources allocation and performance assessment.

Segment assets

The following is an analysis of the Company's assets by reportable segment:

	2010 US$	2009 US$
Listed securities	**3,527,269**	389,306
Unlisted securities	**10,880,293**	13,172,888
Total segment assets	**14,407,562**	13,562,194
Unallocated assets	**18,009,860**	8,042,787
Total assets	**32,417,422**	21,604,981

For the purposes of monitoring segment performances and allocating resources between segments, all assets are allocated to reportable segments other than other receivables and prepayments, consideration receivable from disposal of securities and bank balances.

Geographical information

No geographical information is presented as the Company operates in Greater China only.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2010

9. DIRECTORS' EMOLUMENTS

Except for the directors' fee payable to the independent non-executive directors totalling US$38,607 (2009: US$38,709), none of the directors has received any emoluments for both years.

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

	2010	2009
	US$	US$
Dr. HUA Min	**12,869**	12,903
Mr. ONG Ka Thai	**12,869**	12,903
Mr. YICK Wing Fat, Simon	**12,869**	12,903
	38,607	38,709

The Company pays emoluments to four (2009: four) individuals only, three (2009: three) of them are directors, emoluments of which are disclosed above. The emoluments of the remaining one (2009: one) individual are disclosed in note 10.

10. OTHER EXPENSES

	2010	2009
	US$	US$
Other expenses include the following:		
Auditor's remuneration	**27,493**	26,338
Custodian fee	**13,071**	9,923
Staff salaries and other benefits	**58,803**	54,807
Retirement benefits costs *(note 21)*	**5,606**	5,620

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2010

11. TAXATION

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for both years.

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

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

	2010 US$	2009 US$
Profit for the year	**10,230,134**	699,768
Tax at Hong Kong Profits Tax rate	**1,687,972**	115,462
Tax effect of expenses that are not deductible for tax purposes	**639,665**	76,626
Tax effect of share of result of an associate	**(929,906)**	127
Tax effect of tax losses not recognized	**49,600**	45,263
Tax effect of income that is not assessable for tax purposes	**(1,447,331)**	(237,478)
Taxation for the year	**–**	–

At December 31, 2010, the Company has estimated unused tax losses of approximately US$4,767,000 (2009: US$4,467,000) available for offset against future profits, subject to the approval from the Hong Kong Inland Revenue Department. 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 end of the reporting date.

12. DIVIDENDS

	2010 US$	2009 US$
2009 special final dividend paid – US$0.10 (2008: US$0.10) per share paid from the share premium account	**890,500**	890,500

Subsequent to the end of the reporting period, special final dividend of US$1:00 per share has been proposed by the Board which is subject to approval by the shareholders in the forthcoming annual general meeting.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2010

13. EARNINGS PER SHARE – BASIC

The calculation of basic earnings per share is based on profit for the year of US$10,230,134 (2009: US$699,768) and on the number of 8,905,000 (2009: 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

	2010 **US$**	2009 US$
Unlisted investment, at cost	–	2,573,506
Share of post acquisition loss	–	(1,118)
	–	2,572,388

The investment represents the Company'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 a 8.64% equity interest in Tongrui Holdings Limited ("Tongrui") which invested in an entity engaged in the pharmaceutical business in the People's Republic of China ("PRC"). For purpose of listing of shares, Ruinian International Limited ("RIL") was established to acquire the entire interest in Tongrui and its subsidiaries. On February 1, 2010, Raffles was allotted equivalent shares in RIL in exchange for the entire interest in Tongrui held by Raffles, and the shares of RIL were listed on The Hong Kong Stock Exchange Limited on February 19, 2010.

Upon the listing of shares in RIL, the reliable measurement on the associate's investment, being the market bid price on RIL's shares, become available. The increase in the interest in an associate was mainly attributable to measuring RIL's shares at the market bid price whilst the associate's interest in Tongrui was measured at cost less impairment in year ended 2009.

The investment held by the associate is classified as available-for-sale investment, the changes in fair value were included in other comprehensive income.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2010

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

Raffles disposed some of the shares of RIL during the year and sales proceeds were distributed to respective shareholders. The Company exited from Raffles by end of October 2010 through receipt of distribution of US$11,050,544 from Raffles and selling the shares to another existing shareholder of Raffles at nominal value. The distribution is based on the net assets of Raffles shared by the Company. The transaction resulted in a gain of US$2,842,361 which was mainly attributable to the reclassification adjustment of the reserve of an associate to profit or loss upon disposal of Raffles.

The summarized financial information of Raffles is set out below:

	2010 **US$**	2009 US$
Total assets	**–**	11,322,053
Total liabilities	**–**	(4,904)
	–	11,317,149
Share of net assets	**–**	2,572,388
Turnover	**–**	–
Profit (loss) for the year	**24,794,521**	(3,401)
Share of results of an associate for the year	**5,635,795**	(773)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2010

15. INVESTMENTS IN UNLISTED SECURITIES

	2010	2009
	US$	US$
Investment cost	**5,122,000**	5,122,000
Less: Accumulated impairment	**(4,622,000)**	(2,622,000)
	500,000	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 the end of the reporting period 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 and it is classified as available-for-sale investments.

Included in unlisted securities above is the Company's investment in China Material Technology Limited ("CMT") with a carrying value of US$500,000 (net of impairment loss of US$2,000,000) and fully impaired unlisted securities of Shanghai Hua Xin High Biotechnology Inc. and Shanghai Xinpu Transportation Co., Ltd.

CMT was incorporated in the Cayman Islands. The investment represents a 2.96% (2009: 3.36%) equity interest in CMT. CMT is an investment holding company which wholly own another entity engaged in the supply of construction materials in the PRC. In November 2010, a potential buyer offered to acquire the controlling interest of such entity from CMT and the sale proceeds will be distributed to the investors of CMT in accordance with individual shareholding. Taking into account the expected cash flows to be received from this potential transaction, the directors determined to make an impairment loss of US$2,000,000.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2010

16. INVESTMENTS IN LISTED SECURITIES

	2010 US$	2009 US$
Listed securities, at fair value:		
Shares listed in Hong Kong	**1,995,593**	389,306
Shares listed in Taiwan	**1,531,676**	–
	3,527,269	389,306

The investments in listed securities are held for long-term and non-trading in nature and are classified as available-for-sale investments. Fair value of investments in listed securities have been determined by reference to bid prices quoted in active markets.

The shares listed in Taiwan were acquired under a private placement subscription in May 2010 and are subject to a maximum of three-year lock-up restriction under the rules of relevant jurisdiction.

At December 31, 2010, the accumulated unrealized gain from fair value changes of investments in listed securities of US$278,573 (2009: US$20,986) was included in capital reserve.

17. INVESTMENTS IN REDEEMABLE CONVERTIBLE PREFERENCE SHARES

	2010 US$	2009 US$
Series A-1 Preference Shares in Grandpro Technology Limited ("Grandpro")	**–**	3,100,500
Series A and B Preferred Shares in		
– Global Market Group Limited ("GMG")	**9,800,000**	5,000,000
– Global Market International Limited ("GMIL")	**580,293**	–
	10,380,293	8,100,500
Current	**9,800,000**	3,100,500
Non-current	**580,293**	5,000,000
	10,380,293	8,100,500

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2010

17. INVESTMENTS IN REDEEMABLE CONVERTIBLE PREFERENCE SHARES *(Cont'd)*

In 2008, the Company had acquired 2,600,000 Series A-1 Preference Shares in Grandpro (the "Grandpro Preference Shares") for a consideration of US$2,600,000.

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 Company exercised its redemption right in December 2010 and received total proceeds of US$3,367,890 including principal and accrued interest, resulting in a fair value gain of US$267,390.

In 2008, the Company also acquired 1,530,769 Series B Preferred Shares in GMG (the "GMG Preferred Shares") for a total consideration of US$5,000,000. In November 2009, the Company's holding in GMG Preferred Shares were enlarged to 38,269,225 shares subsequent to a sub-division of GMG's shares by GMG.

On June 2, 2010, the Company acquired additional 3,058,692 Series A Preferred Shares and 2,346,572 Series B Preferred shares in GMG from other existing shareholders of GMG for a consideration of US$847,458 by investing special discretionary cash dividend paid by GMG in June 2010. Both Series A and Series B Preferred Shares carried the same terms and conditions.

On November 9, 2010, the board of directors of GMG resolved a distribution of dividend to shareholders for acquiring the shares in its spun-off business entity, Global Market International Limited ("GMIL"). The Company subscribed 169,334 Series A Preferred Shares and 2,248,553 Series B Preferred Shares in GMIL (the "GMIL Preferred Shares") for a total consideration of US$580,293 by way of investing the special cash dividend paid by GMG in November 2010. Both Series A and Series B GMIL Preferred Shares carried the same terms and conditions.

Both GMG Preferred Shares and GMIL Preferred Shares are convertible into ordinary shares of GMG and GMIL respectively at the option of the Company and will be automatically converted into ordinary shares of GMG and GMIL upon listing of the companies on a recognized stock exchange which values with a market capitalization of at least a certain specified amount. The GMG Preferred Shares and GMIL Preferred Shares are redeemable by the Company after December 31, 2011 and December 31, 2013 respectively, at 100%, repayable over the subsequent three years and will bear interest at 8% per annum as from that respective date if the amount is not being settled at date of redemption made by the Company.

For GMG Preferred Shares, in previous year, it was stated at cost less impairment losses, at the end of the reporting period because the range of reasonable fair value estimates is so diverse that the directors of the Company are of the opinion that their fair value cannot be measured reliably. Whereas in current year, subsequent to the restructuring of GMG in late 2010, the directors of the Company estimate the fair value based on appropriate valuation techniques as mentioned in note 5 to the financial statements..

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2010

18. BANK BALANCES

Bank balances carry interest at market rates which range from 0.01% to 0.4% (2009: 0.01% to 0.11%) per annum. The Company has no short term bank deposit in 2009 and 2010.

19. SHARE CAPITAL

	Number of ordinary shares of US$0.1 each	**Share capital** US$
Authorized:		
At January 1, 2009, December 31, 2009 and December 31, 2010	18,000,000	1,800,000
Issued and fully paid:		
At January 1, 2009, December 31, 2009 and December 31, 2010	8,905,000	890,500

20. NET ASSET VALUE PER SHARE

The calculation of net asset value per share is based on the net asset value of the Company as at December 31, 2010 of US$31,048,060 (2009: US$21,450,839) and on the number of 8,905,000 (2009: 8,905,000) ordinary shares in issue as at December 31, 2010.

21. RETIREMENT BENEFIT SCHEMES

The Company 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 Company in fund under the control of trustee. The Company contributes 11% of relevant payroll costs to the Scheme, which contribution is matched by employees.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2010

22. RELATED PARTY TRANSACTIONS

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

	2010	2009
	US$	US$
Investment management and administration fees paid and payable to Shanghai International Asset Management (Hong Kong) Company Limited (the "Investment Manager")	**530,817**	423,777
Incentive fee payable to the Investment Manager	**1,306,530**	–
	1,837,347	423,777
Amount due to Investment Manager at the end of reporting date	**1,323,893**	126,200

In accordance with the terms of the investment management agreement and the fifth supplemental agreement, the management and administration fees are calculated and payable quarterly in advance at 0.5% of the net asset value of the Company (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 incentive fee is to be calculated at 15% of the excess amount by which the net asset value of the Company as at December 31 of each year exceeds 115% of the net asset value of the Company as at December 31 of the immediately preceding year. 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.

Included in other receivables and prepayments is an amount of US$812,618 (2009:US$788,239) receivable from the shareholder of the Investment Manager. The amount is unsecured, interest fee and repayable on demand.

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.

FINANCIAL SUMMARY

	Year ended December 31,				
	2006	2007	2008	2009	**2010**
	US$'000	US$'000	US$'000	US$'000	**US$'000**
RESULTS					
Income	2,186	5,219	197	1,439	**14,411**
Expenses and impairment	(1,073)	(955)	(2,199)	(739)	**(4,181)**
Profit (loss) before taxation	1,113	4,264	(2,002)	700	**10,230**
Taxation	–	–	–	–	**–**
Profit (loss) for the year	1,113	4,264	(2,002)	700	**10,230**
Earnings (loss) per share	12.50¢	47.88¢	(22.48¢)	7.86¢	**114.88¢**

	At December 31,				
	2006	2007	2008	2009	**2010**
	US$'000	US$'000	US$'000	US$'000	**US$'000**
ASSETS AND LIABILITIES					
Investments in securities	9,864	14,805	12,942	13,562	**14,408**
Others	17,853	12,208	8,678	7,889	**16,640**
Net assets	27,717	27,013	21,620	21,451	**31,048**
Net asset value per share	US$3.11	US$3.03	US$2.43	US$2.41	**US$3.49**