SHANGHAI INTERNATIONAL SHANGHAI GROWTH INVESTMENT LIMITED

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

Annual Report 2011

INVESTMENT MANAGER

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

Contents

CORPORATE INFORMATION

DIRECTORS

Executive Directors:
Dr. WANG Ching
Mr. WU Bin

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

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

COMPANY SECRETARY

Mr. LIANG Kwan Wah Andrew

INVESTMENT MANAGER

In Hong Kong:
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

In Shanghai:
Room G, 6/F,
Crystal Century Tower,
No. 567 Wei Hai Road,
Shanghai 200041, China

LEGAL ADVISERS

In Hong Kong:
Charltons Solicitors & Notary Public

In the Cayman Islands:
Maples and Calder

AUDITORS

Ernst & Young
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

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 31 December 2011.

REVIEW OF RESULTS

The Company recorded a net profit of US$2,488,580 for the year ended 31 December 2011, a decrease of 75.67% year-on-year when compared with a net profit of US$10,230,134 in 2010. Current year's profit is mainly attributable to unrealized fair value gain of US$3,819,707 from the Company's redeemable convertible preference share investments. Nonetheless, current year's profit was comparatively lower when compared to a significant gain on disposal of an investment in an associate recorded in 2010. During the year, the Company received cash dividend of US$386,862 (2010 stock dividend: US$1,427,751) derived from unlisted investments.

Despite having obtained approval from the New York Stock Exchange in March 2011, the listing plan of Global Market Group Limited ("GMG") had to be temporarily suspended due to a sudden change to unfavorable market conditions brought about by the earthquake in Japan. Nonetheless, GMG recorded strong growth in revenue during 2011 and decided in profit distributions to its shareholders. The Company received a cash dividend from GMG of US$386,862 in the last quarter of 2011. As at 31 December 2011, fair value of the Company's investment in GMG increased to US$14.2 million, reflecting a fair value gain of US$4.4 million from 31 December 2010. GMG will continue to pursue its listing plan in 2012.

On the investment in listed securities side, due to unstable global financial markets, the Company recorded realized losses on disposal of listed investments of US$657,104 (2010 profit: US$233,727) and received dividend income of US$37,129 (2010: US$29,895).

Despite adopting a prudent investment strategy and stock selection, the Company's investment portfolio of Hong Kong and China-related listed securities recorded a negative return of 18.64%, which slightly outperformed the Hang Seng Index's decrease of 19.97%. The Company's investment in C-Media Electronics Inc., invested in 2010 through private placement, whose common shares are listed on the Taiwan Gretai Securities Market (stock code 6237.TW), experienced a slump in market price towards the end of 2011, resulted in an unrealized fair value loss of US$1,009,132 for the year ended 31 December 2011.

A special final dividend of US$1.00 per share was paid in June 2011 by the Company out of the substantial gains in 2010. The Company's net asset value ("NAV") per share as at 31 December 2011 was US$2.65 after such dividend distribution, a 24.07% decrease as compared with US$3.49 at the end of 2010. As at the end of December 2011, the Company's share price was US$1.60 (2010: US$1.54), reflecting a 39.62% discount to NAV per share.

BOARD OF DIRECTORS' STATEMENT

LIQUIDITY, FINANCIAL RESOURCES, GEARING AND CAPITAL COMMITMENT

During 2011, the Company did not participate in any new unlisted investment. The Company's bank balances as of 31 December 2011 were US$6,808,139 (2010: US$17,028,140) after a special dividend payout of US$8,905,000 in June 2011. Apart from listed securities investments, cash were used for operating and administrative expenses.

The Company did not have any bank borrowing or capital commitment on its unlisted investments as of 31 December 2011 and 2010.

EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES AND RELATED HEDGES

Except for approximately RMB5.3 million receivables and NTD17.2 million investment in private placement securities and bank balances, 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 26 April 2012, the Board proposes a final dividend of US$0.10 per share in cash for 2011, representing approximately a 5.05% return on the market share price at the time of announcing such dividend. This final dividend, if approved, will be paid on or before 8 June 2012 to shareholders whose names are on the Company's Register of Members on 7 May 2012.

CLOSING OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed as follows:

(a) For determining the right to attend and vote at the Company's annual general meeting to be held on 26 April 2012: from 19 April 2012 to 26 April 2012 (both days inclusive). In order to qualify for attending and voting, all transfers accompanied by the relevant share certificates must be lodged with the Registrars of the Company, Tricor Secretaries Limited ("Tricor"), for registration no later than 4:00p.m. on 18 April 2012;

(b) For determining the entitlement to the proposed final dividend: from 4 May 2012 to 7 May 2012 (both days inclusive). In order to qualify for the proposed final dividend, all transfers accompanied by the relevant share certificates must be lodged with Tricor for registration no later than 4:00p.m. on 3 May 2012.

BOARD OF DIRECTORS' STATEMENT

OUTLOOK FOR 2012

With the European Union being one of its major trading partners, China has positioned itself to weather the Europe slowdown as it is expected that China's exports and corporate earnings are likely to suffer as a result. Nonetheless, the Chinese government targets China's 2012 GDP growth of about 7.5% and there is confidence in the government to continue to drive growth forward at such a pace.

With slowing inflation, easier monetary policy has already been initiated and the Chinese government is anticipated to loosen monetary policy by further cutting interest rates and bank reserve requirements. The recently announced February trade deficit was the highest on a monthly basis in the past ten years, suggesting a possibility of policy alternations in regard to the appreciation of the Yuan and the taming of inflation. Regardless, the government is expected to continue stimulating domestic consumption.

The largest risk remains to be Europe, growth will be flat at best and is likely to turn negative into a recession. Investors perceive an overhanging possibility of a Euro zone break-up and debt default with Greece, with more to follow. Countries in Europe will be undertaking major refinancing activities in the first half. Thereafter, markets should have a clearer picture. Depending on the extent of the results, the European Central Bank (ECB) may implement quantitative easing.

There was a net outflow of US$160 billion in global equity funds last year, while bond funds grew by US$111 billion. In general, investors seem to be overly bearish, and are remaining on the sidelines. Investors have few places to take shelter and are holding cash. Taking a wait-and-see approach on how Europe pans out, they will contemplate between downward earnings versus attractive valuations.

In view of the recent developments of the Europe sovereign debt crisis as well as the encouraging US economic figures released, investment environment in the first half of 2012 is expected to improve. As investors still adopt prudent approach, a re-birth of bull market is thus unlikely. Nonetheless, with investment confidence steadily recovering in the first half, a better investment environment is expected to surface in the second half of the year.

The Company will continue with its prudent yet progressive investment strategy in listed investments with focus on sectors which are expected to benefit from China's national policy, such as the retail consumer and the relatively high-growth technology and innovative manufacturing sectors. In addition, the Company will focus on investing blue chip stocks.

As for unlisted investments, the Company will continue exploring opportunities in investing in projects with great potential in the Greater China region. In addition, should Global Market Group Limited be able to go public this year, the Company does not rule out the possibility to dispose some of the holdings to have the profit locked in for the shareholders.

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

Hong Kong, 15 March 2012

MANAGEMENT DISCUSSION AND ANALYSIS

ECONOMIC REVIEW

China Economy

China's major economic indicators:

Growth (year-on-year, percent)	2011	2010
Gross domestic product ("GDP")	**9.2**	10.4
Value added industrial output	**13.9**	15.7
Retail sales	**17.1**	18.4
Consumer price index ("CPI")	**5.4**	3.3
Fixed asset investments	**23.6**	24.5
Actual foreign direct investments	**9.7**	17.5
Exports	**20.3**	31.3
Imports	**24.9**	38.7
Trade surplus (US$ billion)	**155.1**	183.1
Foreign exchange reserve (US$ billion)	**3,181**	2,847

Source: Published information

2011 was the first year of The Twelfth Five-Year Plan, and was a year of economic growth that had gradually evolved from policy-stimulated driven to internal growth driven. China's GDP still recorded a growth of 9.2% for the whole year in spite of the severe hardship in the world financial sector.

Preliminary achievements were made in taming inflation after the implementation of the People's Bank of China prudent monetary policy. Although the Consumer Price Index ("CPI") in 2011 rose 5.4% year-on-year, it had come down to 4.1% in December, dropping for the fifth straight month to a 15-month low. Against a background of weak export figures, struggling small and medium enterprises and a slowdown in economic growth, maintaining a steady and sustainable GDP growth becomes an urgent and important task for the Chinese government. The decline in CPI growth allows the Chinese government more room for monetary easing measures. It is expected that there will be further reductions in banks' reserve requirement ratio in the near term following its first cut in three years on 5 December 2011, which will relieve liquidity pressure in the banking sector thereby stimulating stable lending growth.

MANAGEMENT DISCUSSION AND ANALYSIS

ECONOMIC REVIEW *(Cont'd)*

Global events

2011 was marked with a continuum of dramatic events, some drastic and tragic. Protests and uprisings happened in Mid-east and Europe resulted in leaders such as Mubarak stepping down, and the demise of Gaddafi. Civilian casualties in Syria are continuing.

The Fukushima nuclear disaster in March 2011 brought supply disruptions and catastrophic casualties. Disruptions were also experienced with floods in Thailand.

The Europe sovereign debt crisis surfaced in Greece in the middle of the year. This was followed by other European countries such as Spain and Italy, in particular. Investors perceive an overhanging possibility of a Eurozone break-up and debt defaults beginning with Greece, with the possibility of more to follow. European leaders constantly met in an effort to formulate a credible workout plan to lessen the adverse impact of this crisis, which is expected to take a considerable time. The Europe sovereign debt crisis continues into 2012.

United States

The country is not in any better shape by far; its finance sector saw major job losses with over 37,000 collectively among Citigroup, Morgan Stanley, Bank of America, and Goldman Sachs while losses at HSBC, UBS, Credit Agricole totaled almost 36,000. Financial firms globally lost 200,000 jobs with more retrenchment forthcoming.

The US government spending budget stalemate and debt crisis were factors in the historic downgrading of US credit rating. The displacement of the AAA status sent destabilizing shockwaves in money markets throughout the world.

MANAGEMENT DISCUSSION AND ANALYSIS

ECONOMIC REVIEW *(Cont'd)*

Relevant stock markets' performance in 2011

Indices	**31 December 2011**	31 December 2010	Change
Hang Seng Index	**18,434.39**	23,035.45	-19.97%
Hang Seng China Enterprises Index	**9,936.48**	12,692.43	-21.71%
Hang Seng China-Affiliated Corporations Index	**3,682.18**	4,170.15	-11.70%
Shanghai SE Composite Index	**2,199.42**	2,808.08	-21.68%
Shenzhen SE Composite Index	**866.65**	1,290.87	-32.86%
Taiwan Exchange Index	**7,072.08**	8,972.50	-21.18%
Dow Jones Industrial Average Index	**12,217.56**	11,577.51	5.53%
Standard and Poor's 500 Index	**1,257.60**	1,257.64	0.00%
NASDAQ Composite Index	**2,605.15**	2,652.87	-1.80%

Source: Bloomberg

Portfolio Allocation

	31 December 2011	31 December 2010
Unlisted investments	**64%**	40%
Listed investments	**4%**	6%
Cash and cash equivalents	**32%**	54%
Total	**100%**	100%

MANAGEMENT DISCUSSION AND ANALYSIS

LISTED INVESTMENTS REVIEW

During 2011, despite the Investment Manager adopting a prudent investment strategy and stock selection, the Company's investment portfolio of Hong Kong and China-related listed securities recorded a negative return of 18.64%, which slightly outperformed the Hang Seng Index's drop of 19.97%.

Reaching a high in July, the People's Bank of China raised interest rates and banks' reserve requirements in an attempt to stem property price rises and inflation. Although property prices have corrected to a certain degree, prices are still high. China continues to strike a delicate balance to further soften property prices while promoting growth in other economic areas.

LISTED SECURITIES PORTFOLIO

As at 31 December 2011

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	20,000	0.0001	194,028	195,329	0.83	13,964
Hong Kong Exchanges and Clearing Limited	Exchange and clearing	12,000	0.0011	193,470	191,623	0.81	–
Hang Seng Bank Limited	Banking & financial services	16,000	0.0008	199,627	189,719	0.80	2,260
China Shenhua Energy Co. Ltd. – H shares	Production and sale of coal	50,000	0.0015	222,114	216,818	0.92	–
Sa Sa International Holdings Limited	Retail & wholesaling of cosmetics	220,000	0.0078	128,010	121,727	0.52	1,698
Other listed securities				–	–	–	19,207
Total investment in listed securities				937,249	915,216	3.88	37,129

MANAGEMENT DISCUSSION AND ANALYSIS

LISTED INVESTMENTS REVIEW *(Cont'd)*

LISTED SECURITIES PORTFOLIO

As at 31 December 2010

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 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	–
Other listed securities				–	–	–	17,043
Total investment in listed securities				1,989,382	1,995,593	6.43	29,895

MANAGEMENT DISCUSSION AND ANALYSIS

UNLISTED INVESTMENTS REVIEW

In 2011, China's venture capital and private equity investment sectors continued to actively raise capital with statistical figures reflecting overall capital raised of US$49.4 billion, reaching yet another historical high. This pace, however, had slowed down in the second half of 2011, and a decline is expected to continue in 2012.

Along with rapid development of China's venture capital market and the continued blooming of RMB-denominated investment funds, foreign investors began participating in RMB-denominated equity investments via a pilot scheme namely, the Qualified Foreign Limited Partner ("QFLP"), which had been launched in Beijing, Shanghai, Tianjin and Chongqing. The scheme is expected to further enhance the size of China's venture capital market, bringing it to a globalization level.

The Investment Manager screened a number of potential projects in 2011 covering various sectors such as food and beverage, education, information technology, biopharmaceutical, medical equipment, clean technology, e-business etc.; some of which due diligence had been thoroughly carried out, but subsequently no new investment project was consummated.

Despite a temporary postponement of the listing of its shares on the New York Stock Exchange, Global Market Group Limited ("GMG") recorded excellent growth in revenue and succeeded in attracting new investors as shareholders. Preparation of its listing plan continues and is expected to proceed upon more favorable market conditions.

Steady progress has been made in the disposal of the operating subsidiary of China Material Technology Limited ("CMT") and the Company is currently awaiting completion of relevant share transfer and settlement procedures.

The Company's investment in C-Media Electronics Inc., invested in 2010 through private placement, whose common shares are listed on Taiwan Gretai Securities Market (stock code 6237.TW) experienced a slump in market price towards the end of 2011, recorded an unrealized fair value loss of US$1,009,132 compared with its fair value at 31 December 2010.

MANAGEMENT DISCUSSION AND ANALYSIS

UNLISTED INVESTMENTS REVIEW *(Cont'd)*

UNLISTED INVESTMENTS PORTFOLIO

As at 31 December 2011

Invested projects	Nature of business	% of equity interest	Amount invested at cost US$	Impairment US$	Fair value changes US$	Carrying value of investment at 31.12.2011 US$	% of net asset value	Dividend income US$	Accumulated dividend income US$
Investment in unlisted securities									
China Material Technology Limited *(N1)*	Investment holding	2.96	2,500,000	(2,000,000)	–	500,000	2.12	–	–
Global Market Group Limited *(N2)*	B2B trading platform	9.67	5,847,458	–	8,352,542	14,200,000	60.18	386,862	1,814,613
Global Market International Limited *(N3)*	Logistics and M2C trading platform	9.67	580,293	–	(580,293)	–	–	–	–
C-Media Electronics Inc. *(N4)*	Audio IC	1.30	1,259,314	–	(736,770)	522,544	2.21	–	–
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			12,809,065	(4,622,000)	7,035,479	15,222,544	64.51	386,862	1,814,613

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.

N4: An investment in shares through private placement which translates into a 1.30% equity interest in an enterprise engaged in audio IC design, whose common shares are listed on Taiwan Gretai Securities Market. The investment from private placement is subject to a 3 year lock-up restriction after which shares can be applied for listing together with its common shares.

MANAGEMENT DISCUSSION AND ANALYSIS

UNLISTED INVESTMENTS REVIEW *(Cont'd)*

UNLISTED INVESTMENTS PORTFOLIO

As at 31 December 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$
Investment in unlisted securities									
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	–	–
C-Media Electronics Inc. *(N4)*	Audio IC	1.30	1,259,314	–	272,362	1,531,676	4.93	–	–
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			12,809,065	(4,622,000)	4,224,904	12,411,969	39.87	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.

N4: An investment in shares through private placement which translates into a 1.30% equity interest in an enterprise engaged in audio IC design, whose common shares are listed on Taiwan Gretai Securities Market. The investment from private placement is subject to a 3 year lock-up restriction after which shares can be applied for listing together with its common shares.

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.

At the end of 2010, shareholders of CMT decided on a disposal plan of SPLS. A share transfer agreement had been reached with a third-party company in May 2011, in which CMT agreed to sell its majority equity interest in SPLS to the third-party company. The share transfer procedure and relevant settlement are currently in progress. The value of CMT is stated at cost less impairment, at a recoverable amount of US$500,000 on exit of this investment.

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. 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 obtained listing approval on the New York Stock Exchange in March 2011. However GMG postponed its listing plan temporarily owing to a sudden change to unfavorable market conditions. At the end of 2011, GMG succeeded in bringing in financially sound investors as new shareholders. It recorded strong growth and excellent results in its B2B trading business. Dividend distributions were made to shareholders during 2011, from which the Company received its share of US$386,862. GMG will continue to bring in solid investors for future development purposes and to proceed with its listing plan upon more favorable market conditions. The fair valuation of the Company's holding of GMG has therefore increased to US$14.2 million as at 31 December 2011.

MANAGEMENT DISCUSSION AND ANALYSIS

UNLISTED INVESTMENTS REVIEW *(Cont'd)*

Current investments *(Cont'd)*

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 by which dividends were declared from GMG to its respective shareholders for subscription of shares in GMIL.

The Company was allotted 2,417,887 shares in Series A and B Preferred Shares in GMIL ("GMIL Preferred Shares") 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. GMIL Preferred Shares are convertible into ordinary shares of GMIL upon listing of its shares on a recognized stock exchange or are redeemable at 100% after end of 2013, with an interest of 8% per annum as from that date, payable over the subsequent three years.

As M2C evolution requires a great demand for financing and strategic resources, GMIL's management was diligently upgrading and innovating their services and technologies. GMIL helped small businesses to use its M2C platform to further grow in scale, reduce their opportunity cost in marketing and circulation, and build resilience in the face of a challenging market environment. Nevertheless, in view of the start-up and cost intensive nature of this business, losses were incurred and are expected to continue in the next two years. The Company considered that it will be difficult in the medium term for GMIL to generate sufficient profit and net cash inflow to set off accumulated losses, the fair value of this investment is therefore considered as zero as at 31 December 2011.

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 (stock code 6237.TW). By nature of this private placement, the new shares are subject to three-year lockup restriction and thereafter, these shares are qualified to apply for listing on the same market with its common shares.

C-Media specializes in the designing and manufacturing of audio ICs. Apart from maintaining a steady growth in their traditional businesses, C-Media is developing other businesses such as noise reduction (ENC) technology, karaoke video and sound technology for low budget mobile phones co-development with another Taiwan listed company. These product developments are expected to generate significant growth in C-Media's future revenue and profitability.

Towards the end of 2011, there were worries about C-Media's royalty contract due to expire in March 2012 and will not be renewed, which is expected to have an adverse impact on C-Media's profits. This resulted in substantial drop in the market price of its common shares. The Company's fair value in this private placement investment recorded an unrealized fair value loss of US$736,770 versus its investment cost. C-Media is currently actively expanding into new businesses in LED development. The Investment Manager will monitor closely and evaluate its operating conditions with the development of this new business.

BIOGRAPHICAL DETAILS OF DIRECTORS

WANG Ching *(RC)*

Aged 57, 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 19 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 president of Investment and Proprietary Trading Group for Jih Sun Financial Holding Co. Ltd. in Taiwan, the managing director of JS Cresvale Securities International Limited, the managing director of SinoPac Securities Asia Ltd. in Hong Kong, SEVP of SinoPac Securities Co. Ltd. in Taiwan, the director of Investment Banking Department at Standard Chartered Bank Hong Kong and the associate director of Bear Stearns & Co. Inc., New York and Hong Kong.

Dr. Wang obtained his Master's degree in business administration from the University of Houston and Ph.D. in finance from Columbia University in the city of New York.

WU Bin *(RC)*

Aged 38, 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. since 2004, which is a subsidiary company of SIG and one of the substantial shareholders of the Company. From 1996 to 2004, he had held senior positions with foreign banking and securities institutions in the PRC. Mr. Wu has over 12 years' managerial experience in banking, securities and trust investment sectors in PRC.

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

AC – Audit Committee
NC – Nomination Committee
RC – Remuneration Committee

BIOGRAPHICAL DETAILS OF DIRECTORS

HUA Min *(AC, NC and RC)*

Aged 61, has been an INED since September 2004 and Chairman of NC. 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, NC and RC)*

Aged 57, has been an INED since June 1997 and Chairman of the RC. Mr. Ong is currently the Chairman of various companies including Ong Pacific (H.K.) Ltd., Ong First Tradition Pte. Ltd., Ong Commodities Pte. Ltd. and Ong Pacific Capital Ltd. These companies are third 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 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 35 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, NC and RC)*

Aged 53, has been an INED since July 1999 and Chairman of the AC. Mr. Yick holds a Bachelor's degree in Business Administration from the Chinese University of Hong Kong, majoring in Accounting. He is a fellow of the Hong Kong Institute of Certified Public Accountants and the Chartered Association of Certified Accountants in England. Mr. Yick has over 29 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 was also an INED and Chairman of the AC of China-Biotics, Inc., (a company previously listed on the Nasdaq Global Market in the USA) and resigned on 23 June 2011.

CHEN Chi-chuan *(AC)*

Aged 54, has been a Non-Executive Director of the Company and a director of the Investment Manager since March 2003. Mr. Chen joined the Ruentex Group in Taiwan since 1987 and is currently the Vice President of Hei Hong Investment Co., Ltd., with responsibilities for all equity investment activities in Asia. Mr. Chen holds a Master's degree in Business Administration from the National Taiwan University.

BIOGRAPHICAL DETAILS OF DIRECTORS

LEE Tien-chieh

Aged 52, 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 22 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 53, 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 48, has over 20 years' managerial experience in the banking, life insurance, securities and investment sectors in the People's Republic of China. 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 SIG.

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 31 December 2011 and is 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 standards 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 set out in Appendix 14 of the Listing Rules (the "CG Code") was introduced on 1 January 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 31 December 2011, 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. In response to specific enquiry by the Company, all Directors confirmed that they complied with the Model Code throughout the financial year ended 31 December 2011.

INTERNAL CONTROL REVIEW

The Company's system of internal controls was reviewed and reported to the Board during the second half of 2011 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 26 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"). There has been no change in directorship during 2011. 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 16 to 18 under the heading "Biographical Details of Directors".

The Board held six Board meetings during the 2011 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 31 December 2011 was:

Number of meetings held			Six (6)
Name of Director	**Attendance**	**Name of Director**	**Attendance**
Dr. WANG Ching	6/6	Mr. LEE Tien-chieh	6/6
Mr. WU Bin	6/6	Mr. TSENG Ta-mon	4/6
Dr. HUA Min	4/6	Mr. CHEN Chi-chuan	5/6
Mr. ONG Ka Thai	6/6	Dr. ZHU Zhongqun	6/6
Mr. YICK Wing Fat Simon	6/6		

As at 31 December 2011, 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 31 December 2011. Details of such relationships are set out on pages 29 to 30 under the heading "Substantial Shareholders and Other Persons' Interests and Short Positions in Shares and Underlying Shares".

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 31 December 2011. 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 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$120,000 per year. No other Directors have service contract with the Company or received remuneration from the Company.

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

The Company has established its Audit Committee ("AC") since July 1999. The Board has given the AC written terms of reference prepared by reference to "A Guide for Effective Audit Committees" published by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and the Stock Exchange's "Code on Corporate Governance Practices" (the "CG Code"). Such terms of reference are available on the Company's website and on the Hong Kong Exchanges and Clearing Limited's ("HKEx's") website.

CORPORATE GOVERNANCE REPORT

AUDIT COMMITTEE *(Cont'd)*

Composition and Attendance

The AC consists of all three INEDs and one non-executive Director. Two meetings were held during the 2011 financial year. Members of the AC for the year ended 31 December 2011 and their respective attendance at such meetings was:

Number of meetings held			Two (2)
Name of Director	**Attendance**	**Name of Director**	**Attendance**
Mr. YICK Wing Fat Simon *(Chairman)*	2/2	Dr. HUA Min	2/2
Mr. ONG Ka Thai	2/2	Mr. CHEN Chi-chuan	1/2

Function

The primary duties of the AC are to assure the accuracy, completeness, objectivity and credibility of the Company's financial reporting and internal control procedures.

The AC is to review the Company's interim and annual financial statements and make recommendations for the approval of such interim and annual financial statements by the Board. Members of the AC have complete and unrestricted access to the external auditors and senior staff of the Company for information.

During 2011, the AC has reviewed the accounting principles and policies adopted by the Company and discussed with the management the internal controls and financial reporting matters. It has also reviewed the half-year results for the period ended 30 June 2011 and the annual results for the year ended 31 December 2011 of the Company before their respective announcements. External auditors were present at all AC meetings and participated in discussions as to the adequacy and effectiveness of the Company's internal control and management information system.

REMUNERATION COMMITTEE

The Company's Remuneration Committee ("RC") was established in March 2005 with written terms of reference conforming to requirements of the CG Code. Such terms of reference given by the Board are published on the Company's website and the HKEx's website.

Composition and Attendance

The RC comprises 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 2011 financial year which, except for Dr. HUA Min, was attended by all other members.

Function

The role of the RC is to ensure formal and transparent procedures to develop staff remuneration policies and to oversee remuneration packages of the 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 the reviewing and making recommendations to the Board on performance-based remuneration by reference to corporate goals and objectives resolved by the Board from time to time.

In 2011 the RC reviewed current remuneration policies of the Company for its staff, the external auditors and that of its INEDs by reference to market comparables. No remuneration is determined for executive Directors and other non-executive Directors.

CORPORATE GOVERNANCE REPORT

NOMINATION COMMITTEE

The Company's Nomination Committee ("NC") was established in February 2012. Its written terms of reference given by the Board by reference to the CG Code are published on the Company's website and the HKEx's website.

Composition and Attendance

The NC comprises all three INEDs, namely Dr. HUA Min (Chairman), Mr. YICK Wing Fat Simon and Mr. ONG Ka Thai. Due to its recent establishment, no meeting has yet been held up to the date of this report.

Function

The NC's major responsibilities are to review the structure, size and composition of the Board, to identify and nominate for Board's consideration individuals suitably qualified to become Directors, and to assess the independence of candidates for INEDs.

Prior to the establishment of the NC, all valid nomination of candidates for directorships, accompanied with details of their biographical backgrounds, would be presented to the Board, a decision by which would take into consideration factors such as the candidate's integrity, experience and qualifications relevant to the Company's business.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

The statement of the external auditors of the Company, Messrs. Ernst & Young, with regard to their reporting responsibilities on the Company's financial statements, is set out in the Independent Auditors' Report on pages 32 to 33.

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

AUDITORS' REMUNERATION

For the year ended 31 December 2011, services provided to the Company by its external auditors, Ernst & Young, and the respective fees paid were:

	2011 **US$**
Audit services	**33,187**
Taxation compliance and other services	**8,483**
	41,670

DIRECTORS' REPORT

The directors present their report and the audited financial statements for the year ended 31 December 2011.

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 Greater China, 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 DIVIDENDS

The Company's profit for the year ended 31 December 2011 and the state of affairs of the Company at that date are set out in the financial statements on pages 39 to 73.

The directors recommend the payment of a final dividend of US$0.10 per ordinary share in respect of the year to shareholders. This recommendation has been incorporated in the financial statements as an allocation of retained profits within the equity section of the statement of financial position.

SUMMARY FINANCIAL INFORMATION

A summary of the published results and assets and liabilities of the Company for the last five financial years, as extracted from the audited financial statements and restated/reclassified as appropriate, is set out on page 74. This summary does not form part of the audited financial statements.

SHARE CAPITAL

There were no movements in either the Company's authorized or issued share capital during the year.

RESERVES

Details of movements in the reserves of the Company are set out in the statement of changes in equity.

DISTRIBUTABLE RESERVES

At 31 December 2011, the Company's reserves available for distribution, calculated in accordance with the provisions of the Company Law (Revised) of the Cayman Islands and the Company's Articles of Association amended on 12 May 2011, amounted to US$22,703,764, of which US$890,500 has been proposed as a final dividend for the year, subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

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

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

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, Mr. YICK Wing Fat, Simon, Mr. CHEN Chi-chuan and Mr. TSENG Ta-mon will retire as Directors in accordance with Article 98(b) and 98(c) of the Company's Articles and pursuant to Appendix 14 of the Listing Rules, all of these retiring Directors, being eligible, offer themselves for re-election. All other remaining Directors continue in office.

The Company has received annual confirmations of independence from Dr. HUA Min, Mr. ONG Ka Thai and Mr. YICK Wing Fat, Simon, and as at the date of this report still considers them to be independent.

DIRECTORS' BIOGRAPHIES

Biographical details of the directors of the Company are set out on pages 16 to 18 of the annual report.

DIRECTORS' SERVICE CONTRACTS

Dr. HUA Min, Mr. ONG Ka Thai and Mr. YICK Wing Fat have service contracts with the Company for a term of two years as an INED of the Company which commenced on 28 September 2010, 1 June 2011 and 1 August 2011, respectively, and are subject to termination by either party giving not less than one month's written notice. Each INED is entitled to annual remuneration of HK$120,000.

No other Directors have a service contract with the Company or received remuneration from the Company.

DIRECTORS' REPORT

DIRECTORS' REMUNERATION

The directors' fees are subject to shareholders' approval at general meeting. Other emoluments are determined by the Company's board of directors with reference to directors' duties, responsibilities and performance and the results of the Company.

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 12 November 1993, as supplemented by supplemental agreements dated 22 January 2001, 12 September 2001, 3 November 2003, 11 April 2005, 28 March 2008 and 28 March 2011 respectively (collectively referred to as the "Supplemental Agreements"). For the aforesaid continuing connected transaction, certain details are disclosed below in compliance with the requirements of Chapter 14A of the Listing Rules.

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 the United States Dollars ("US$") and payable quarterly in advance, at the rate of 0.5% per quarter of the net asset value (calculated before deductions of the fees payable to the Investment Manager, the investment adviser and the custodian for that quarter) of the Company calculated on the last business day of the previous quarter. The Investment Manager is entitled to an incentive fee equal to 15% of the amount on top and above that portion of the net asset value of each of the assets which represent listed securities (the "Listed Investment Portfolio") or assets which represent unlisted securities or interest (the "Unlisted Investment Portfolio") as at 31 December 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 31 December 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 1 July 2008, no incentive fee shall be payable to the Investment Manager if the net asset value per share of the Company at 31 December of the relevant year is less than US$2.60, 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$1.40 subsequent to special dividend payouts of US$1.20 from 1 July 2008 to 30 June 2011. The fifth supplementary agreement of the Investment Management Agreement dated 28 March 2008 also stated that the cap on total fees payable to the Investment Manager should not exceed US$2,800,000 from 1 January 2011 to 30 June 2011.

During the year ended 31 December 2011, investment management and administration fees of US$506,075 were paid to the Investment Manager, no incentive fee was entitled during the relevant period.

DIRECTORS' REPORT

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

On 28 March 2011, the Company and the Investment Manager entered into a Sixth Supplemental Agreement, which was approved by the independent shareholders of the Company at the annual general meeting held on 12 May 2011. The terms were amended as follows:

- The appointment of the Investment Manager is extended for a term of 3 years commencing from 1 July 2011 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 as at 31 December 2011 exceeds 115% of the Net Asset Value as at 31 December 2010. The actual amount of special dividends (if any) paid out by the Company during 2011 shall be deducted from the Net Asset Value of the Company as at 31 December 2010 when calculating the growth of the Net Asset Value of the Company; and

- With effect from year ending 31 December 2012, the incentive fee is to be calculated at 20% of the excess amount by which the Net Asset Value of the Company as at 31 December of each year of the term of the Sixth Supplemental Agreement exceeds 108% of the Net Asset Value of the Company as at 31 December of the immediately preceding year. The actual amount of special dividends (if any) paid out by the Company in the relevant year shall be deducted from the Net Asset Value of the Company as at 31 December of the immediately preceding year when calculating the growth of the Net Asset Value of the Company. In the event that the Company raises new capital in the relevant year, such new capital shall be deducted from the Net Asset Value of the Company as at 31 December of the relevant year for purpose of determining the incentive fee; and

- With effect from 1 July 2011, after adjustment on payments of special dividend in each year from 2008 to 2011, no incentive fee shall be payable to the Investment Manager if the net asset value per share of the Company at 31 December of the relevant year is less than US$1.40. Thereafter such threshold shall be adjusted annually (or such other period as the Board deems appropriate) according to the actual amount of special dividends paid at during the immediately preceding year(s). Any such adjustment shall be approved by the Board in accordance with the Articles; 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$5,500,000 from 1 July 2011 to 31 December 2011

  - Not exceeding US$1,200,000 for the year of 2012

  - Not exceeding US$2,000,000 for the year of 2013

  - Not exceeding US$620,000 from 1 January 2014 to 30 June 2014

DIRECTORS' REPORT

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

The INEDs of the Company have reviewed the continuing connected transactions set out above and have confirmed that these continuing connected transactions were entered into (i) in the ordinary and usual course of business of the Company; (ii) on normal commercial terms or on terms no less favourable to the Company than terms available to or from independent third parties; and (iii) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

Ernst & Young, the Company's auditors, were 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. Ernst & Young have issued their unqualified letter containing their findings and conclusions in respect of the continuing connected transactions disclosed by the Company in accordance with Rule 14A.38 of the Listing Rules. A copy of the auditor's letter has been provided by the Company to The Stock Exchange of Hong Kong Limited.

As at 31 December 2011, Dr. WANG Ching, Mr. WU Bin and Dr. ZHU Zhongqun are also directors of the Investment Manager.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES AND DEBENTURES

None of the directors had registered an interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations that was required to be recorded pursuant to Section 352 of the Securities and Futures Ordinance ("SFO"), or as otherwise notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as at 31 December 2011.

DIRECTORS' INTERESTS IN CONTRACTS

No director had a material interest, either directly or indirectly, in any contract of significance to the business of the Company to which the Company was a party 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

CONTRACT OF SIGNIFICANCE

No contracts of significance in relation to the Company's business in which the Company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted during or at the end of the year.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

At 31 December 2011, the following interests and short positions of 5% or more of the issued share capital and share options of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

Long positions in the ordinary shares of US$0.10 each of the Company

Name	Capacity and nature of interest	Number of shares held	Percentage of the Company's issued share capital	*Notes*
Mr. Bart M. Schwartz	Receiver of Gabriel Capital, L.P. and Ariel Fund Limited	1,061,817	11.92%	*(1)*
Mr. J. Ezra Merkin	Held by controlled corporation	494,843	5.56%	*(1)*
Gabriel Capital Corporation	Held by controlled corporation	1,127,739	12.66%	*(1)*
Ariel Fund Limited	Beneficial owner	632,896	7.11%	*(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' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES *(Cont'd)*

Notes:

(1) Mr. Bart M. Schwartz ("Receiver") was appointed on 29 May 2009 as the receiver of Gabriel Capital, L.P. and Ariel Fund Limited, each of them were holding 428,921 shares and 632,896 shares of the Company respectively as at 31 December 2011. Mr. J. Erza Merkin's indirect interests in the Company were 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 Ltd.

(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.

Save as disclosed above, as at 31 December 2011, no person had registered an interest or short position in shares or underlying shares of the Company that was required to be recorded pursuant to Section 336 of the SFO.

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, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

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

DIRECTORS' REPORT

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's articles of association or the laws of Cayman Islands which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the directors, at least 25% of the Company's total issued share capital was held by the public as at the date of this report.

DIRECTORS' INTERESTS IN A COMPETING BUSINESS

During the year and up to the date of this report, no director is considered to have interests in a business which competes or is likely to compete, either directly or indirectly, with the businesses of the Company, as defined in the Listing Rules.

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 31 December 2011, 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 four non-executive directors, three of them being independent. The Audit Committee has reviewed the accounting principles and policies adopted by the Company and discussed with the management the internal controls and financial reporting matters. It meets at least twice annually with the external auditor to discuss the interim results and annual audit of the Company. The Audit Committee has reviewed the annual results of the Company for the year ended 31 December 2011.

AUDITORS

During the year, Deloitte Touche Tohmatsu resigned as auditors of the Company and Ernst & Young were appointed by the directors to fill the casual vacancy so arising. There have been no other changes of auditors in the past three years. A resolution for the reappointment of Ernst & Young as auditors of the Company will be proposed at the forthcoming annual general meeting.

On behalf of the Board
WANG Ching
Executive Director

Hong Kong, 15 March 2012

INDEPENDENT AUDITORS' REPORT

TO THE SHAREHOLDERS OF
SHANGHAI INTERNATIONAL SHANGHAI GROWTH INVESTMENT LIMITED
(An exempted company 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 34 to 73, which comprise the statement of financial position as at 31 December 2011, 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 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.

AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit. Our report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance 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 auditors' judgement, 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 auditors consider internal control relevant to the entity's preparation of 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 AUDITORS' REPORT

OPINION

In our opinion, the financial statements give a true and fair view of the state of affairs of the Company as at 31 December 2011 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.

Ernst & Young
Certified Public Accountants
22/F CITIC Tower
1 Tim Mei Avenue, Central
Hong Kong

15 March 2012

STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2011

	Notes	2011 US$	2010 US$
INCOME AND GAIN/(LOSS) ON INVESTMENTS			
Interest income		**35,665**	10,614
Dividend income		**423,991**	1,457,646
Net gain on change in fair value of financial assets at fair value through profit or loss		**3,819,707**	4,219,932
Net (loss)/gain on disposal of available-for-sale investments		**(657,104)**	233,727
Impairment loss in available-for-sale investments		**–**	(2,000,000)
Gain on disposal of an associate		**–**	2,842,361
Share of profit of an associate		**–**	5,635,795
Exchange gain		**40,776**	11,313
		3,663,035	12,411,388
EXPENSES			
Investment manager's fees	*16(a)*	**(506,075)**	(1,837,347)
Administrative expenses		**(458,380)**	(343,907)
		(964,455)	(2,181,254)
Profit before tax	*5*	**2,698,580**	10,230,134
Income tax expense	*7*	**(210,000)**	–
PROFIT FOR THE YEAR		**2,488,580**	10,230,134
OTHER COMPREHENSIVE INCOME			
Available-for-sale investments:			
Change in fair value of available-for-sale investments		**(1,694,480)**	491,314
Reclassification adjustment for loss/(gain) included in profit or loss upon disposal		**657,104**	(233,727)
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		**–**	(2,845,744)
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX		**(1,037,376)**	257,587
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**1,451,204**	10,487,721
EARNINGS PER SHARE – BASIC AND DILUTED	*9*	**27.95 cents**	114.88 cents

Details of the dividend payable and proposed for the year are disclosed in note 8 to the financial statements.

STATEMENT OF FINANCIAL POSITION

31 December 2011

	Notes	2011 US$	2010 US$
NON-CURRENT ASSETS			
Available-for-sale investments	10	**1,437,760**	4,027,269
Financial assets at fair value through profit or loss	11	**–**	580,293
Total non-current assets		**1,437,760**	4,607,562
CURRENT ASSETS			
Available-for-sale investments	10	**500,000**	–
Financial assets at fair value through profit or loss	11	**14,200,000**	9,800,000
Prepayments and other receivables	12	**909,202**	981,720
Cash and bank balances	13	**6,808,139**	17,028,140
Total current assets		**22,417,341**	27,809,860
CURRENT LIABILITIES			
Accruals		**44,637**	45,469
Amount due to investment manager	16(b)(i)	**6,200**	1,323,893
Tax provision		**210,000**	–
Total current liabilities		**260,837**	1,369,362
NET CURRENT ASSETS		**22,156,504**	26,440,498
NET ASSETS		**23,594,264**	31,048,060
EQUITY			
Share capital	14	**890,500**	890,500
Reserves		**21,813,264**	21,252,560
Proposed dividend	8	**890,500**	8,905,000
Total equity		**23,594,264**	31,048,060
NET ASSET VALUE PER SHARE	15	**2.65**	3.49

WANG Ching
Director

WU Bin
Director

STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2011

	Note	Issued capital US$	Share premium account US$	Available-for-sale investment revaluation reserve US$ *(Note a)*	Capital reserve US$ *(Note b)*	Retained profits/ (accumulated losses) US$ *(Note b)*	Proposed dividend US$	Total US$
At 1 January 2010		890,500	22,752,935	20,986	(896,950)	(2,207,132)	890,500	21,450,839
Profit for the year		–	–	–	–	10,230,134	–	10,230,134
Other comprehensive income for the year:								
Net gain on change in fair value of available-for-sale investments, net of tax *(Note a)*		–	–	491,314	–	–	–	491,314
Reclassification adjustment for 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 for cumulative gain included in 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)
Total comprehensive income for the year		–	–	257,587	–	10,230,134	–	10,487,721
Transfer from accumulated losses:								
Net gain on disposal of available-for-sale investments		–	–	–	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 available-for-sale investments		–	–	–	(2,000,000)	2,000,000	–	–
Net gain on change in fair value of financial assets at fair value through profit or loss		–	–	–	4,219,932	(4,219,932)	–	–
2009 special final dividend paid		–	–	–	–	–	(890,500)	(890,500)
Proposed 2010 special final dividend	*8*	–	(8,905,000)	–	–	–	8,905,000	–
At 31 December 2010		890,500	13,847,935	278,573	10,034,865	(2,908,813)	8,905,000	31,048,060

Continued/....

STATEMENT OF CHANGES IN EQUITY (Continued)

Year ended 31 December 2011

	Note	Issued capital US$	Share premium account US$	Available-for-sale investment revaluation reserve US$ (Note a)	Capital reserve US$ (Note b)	Retained profits/ (accumulated losses) US$ (Note b)	Proposed dividend US$	Total US$
At 1 January 2011		890,500	13,847,935	278,573	10,034,865	(2,908,813)	8,905,000	31,048,060
Profit for the year		–	–	–	–	2,488,580	–	2,488,580
Other comprehensive income for the year:								
Net loss on change in fair value of available-for-sale investments, net of tax *(Note a)*		–	–	(1,694,480)	–	–	–	(1,694,480)
Reclassification adjustment for loss included in profit or loss upon disposal		–	–	657,104	–	–	–	657,104
Total comprehensive income for the year		–	–	(1,037,376)	–	2,488,580	–	1,451,204
Transfer from retained profit/ (accumulated losses):								
Net unrealized gain on change in fair value of financial assets at fair value through profit or loss		–	–	–	3,819,707	(3,819,707)	–	–
2010 special final dividend paid		–	–	–	–	–	(8,905,000)	(8,905,000)
Proposed 2011 final dividend	8	–	–	–	–	(890,500)	890,500	–
Transfer to retained profits/ (accumulated losses) *(Note b)*:								
Net realised gain upon disposal of investments and impairment loss of available-for-sale investments included in capital reserve in prior years		–	–	–	(6,082,323)	6,082,323	–	–
At 31 December 2011		890,500	13,847,935	(758,803)	7,772,249	951,883	890,500	23,594,264

Note:

a) Fair value changes of available-for-sale investments are dealt with in the available-for-sale investment revaluation reserve until the available-for-sale investments are sold or impaired, at which time the cumulative net gain or loss shall be reclassified to profit or loss.

b) In prior years, as required by the Company's Articles of Association, gains and losses on realisation and revaluation of investments should not be available for distribution as dividends. Those fair value gains/losses and impairments on investments recognised in profit or loss were transferred to the capital reserve in the period in which they arose.

Pursuant to the Company's Memorandum and Articles of Association amended on 12 May 2011, profits arising from the realisation of investments shall be available for distribution as dividends. Profits arising from revaluation of investments may be available for distribution as dividends only at the discretion of the board of directors. Accordingly, the Company transferred all the realized gains and losses on investments and impairments on available-for-sale investments included in capital reserve in the prior year to retained profits in the current year.

At 31 December 2011, the balance of the capital reserve represented the unrealized gain/(loss) of financial assets at fair value through profit or loss.

STATEMENT OF CASH FLOWS

Year ended 31 December 2011

	Note	2011 US$	2010 US$
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**2,698,580**	10,230,134
Adjustments for:			
Interest income		**(35,665)**	(10,614)
Dividend income		**(423,991)**	(1,457,646)
Net loss/(gain) on disposal of available-for-sale investments		**657,104**	(233,727)
Share of results of an associate		**–**	(5,635,795)
Gain on disposal of an associate		**–**	(2,842,361)
Net gain on change in fair value of financial assets at fair value through profit or loss		**(3,819,707)**	(4,219,932)
Impairment loss in available-for-sale investments		**–**	2,000,000
Operating cash flows before movements in working capital		**(923,679)**	(2,169,941)
Proceeds from disposal of available-for-sale investments		**4,046,547**	3,738,182
Purchase of available-for-sale investments		**(3,651,518)**	(5,945,477)
Proceeds from disposal of financial assets at fair value through profit or loss		**–**	3,367,890
Purchase of financial assets at fair value through profit or loss		**–**	(1,427,751)
Decrease/(increase) in prepayments and other receivables		**72,518**	(45,185)
(Decrease)/increase in accruals		**(832)**	17,527
(Decrease)/increase in amount due to investment manager		**(1,317,693)**	1,197,693
Cash used in operations		**(1,774,657)**	(1,267,062)
Interest received		**35,665**	10,614
Dividend received		**423,991**	1,457,646
Net cash (used in)/generated from operating activities		**(1,315,001)**	201,198
CASH FLOWS FROM INVESTING ACTIVITY			
Proceeds from disposal of an associate and net cash flows generated from investing activity		**–**	11,050,544
CASH FLOWS FROM FINANCING ACTIVITY			
Dividend paid and net cash flows (used in) financing activity		**(8,905,000)**	(890,500)
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		**(10,220,001)**	10,361,242
Cash and cash equivalents at beginning of year		**17,028,140**	6,666,898
CASH AND CASH EQUIVALENTS AT END OF YEAR	*13*	**6,808,139**	17,028,140

NOTES TO FINANCIAL STATEMENTS

31 December 2011

1. CORPORATE INFORMATION

Shanghai International Shanghai Growth Investment Limited (the "Company") is incorporated in the Cayman Islands as an exempted company with limited liability and the Company's shares with stock code 770 are listed on The Stock Exchange of Hong Kong Limited ("Hong Kong Stock Exchange"). The registered office of the Company is located at P.O. Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands.

During the year, the Company was principally engaged in making 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").

2. BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for financial assets at fair value through profit or loss and available-for-sale investments, which have been measured at fair value.

These financial statements are presented in United States dollars ("US$") and all values are rounded to the nearest dollar except when otherwise indicated.

2.1 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

The Company has adopted the following new and revised HKFRSs for the first time for the current year's financial statements.

HKFRS 1 Amendment	Amendment to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters*
HKAS 24 (Revised)	*Related Party Disclosures*
HKAS 32 Amendment	Amendment to HKAS 32 *Financial Instruments: Presentation Classification of Rights Issues*
HK(IFRIC)-Int 14 Amendments	Amendments to HK(IFRIC)-Int 14 *Prepayments of a Minimum Funding Requirement*
HK(IFRIC)-Int 19	*Extinguishing Financial Liabilities with Equity Instruments*
Improvements to HKFRSs 2010	Amendments to a number of HKFRSs issued in May 2010

Other than as further explained below regarding the impact of HKAS 24 (Revised), and amendments to HKAS 1 included in Improvements to HKFRSs 2010, the adoption of the new and revised HKFRSs has had no significant financial effect on these financial statements.

NOTES TO FINANCIAL STATEMENTS

31 December 2011

2.1 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES *(Cont'd)*

The principal effects of adopting these new and revised HKFRSs are as follows:

(a) HKAS 24 (Revised) Related Party Disclosures

HKAS 24 (Revised) clarifies and simplifies the definitions of related parties. The new definitions emphasise a symmetrical view of related party relationships and clarify the circumstances in which persons and key management personnel affect related party relationships of an entity. The revised standard also introduces an exemption from the general related party disclosure requirements for transactions with a government and entities that are controlled, jointly controlled or significantly influenced by the same government as the reporting entity. The accounting policy for related parties has been revised to reflect the changes in the definitions of related parties under the revised standard. The adoption of the revised standard did not have any impact on the financial position or performance of the Company. Details of the related party transactions, including the related comparative information, are included in note 16 to the financial statements.

(b) *Improvements to HKFRSs 2010* issued in May 2010 sets out amendments to a number of HKFRSs. There are separate transitional provisions for each standard. While the adoption of some of the amendments may result in changes in accounting policies, none of these amendments has had a significant financial impact on the financial position or performance of the Company. Details of the key amendments most applicable to the Company are as follows:

- HKAS 1 *Presentation of Financial Statements*: The amendment clarifies that an analysis of each component of other comprehensive income can be presented either in the statement of changes in equity or in the notes to the financial statements. The Company elects to present the analysis of each component of other comprehensive income in the statement of changes in equity.

NOTES TO FINANCIAL STATEMENTS

31 December 2011

2.2 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Company has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these financial statements.

HKFRS 1 Amendments	Amendments to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters*[1]
HKFRS 7 Amendments	Amendments to HKFRS 7 *Financial Instruments: Disclosures – Transfers of Financial Assets*[1]
HKFRS 9	*Financial Instruments*[5]
HKFRS 10	*Consolidated Financial Statements*[4]
HKFRS 11	*Joint Arrangements*[4]
HKFRS 12	*Disclosure of Interests in Other Entities*[4]
HKFRS 13	*Fair Value Measurement*[4]
HKAS 1 Amendments	*Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income*[3]
HKAS 12 Amendments	Amendments to HKAS 12 *Income Taxes – Deferred Tax: Recovery of Underlying Assets*[2]
HKAS19 (2011)	*Employee Benefits*[4]
HKAS 27 (2011)	*Separate Financial Statements*[4]
HKAS 28 (2011)	*Investments in Associates and Joint Ventures*[4]
HK(IFRIC)-Int 20	*Stripping Costs in the Production Phase of a Surface Mine*[4]

1 Effective for annual periods beginning on or after 1 July 2011
2 Effective for annual periods beginning on or after 1 January 2012
3 Effective for annual periods beginning on or after 1 July 2012
4 Effective for annual periods beginning on or after 1 January 2013
5 Effective for annual periods beginning on or after 1 January 2015

Further information about those changes that are expected to significantly affect the Company is as follows:

HKFRS 9 issued in November 2009 is the first part of phase 1 of a comprehensive project to entirely replace HKAS 39 *Financial Instruments: Recognition and Measurement*. This phase focuses on the classification and measurement of financial assets. Instead of classifying financial assets into four categories, an entity shall classify financial assets as subsequently measured at either amortised cost or fair value, on the basis of both the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. This aims to improve and simplify the approach for the classification and measurement of financial assets compared with the requirements of HKAS 39.

NOTES TO FINANCIAL STATEMENTS

31 December 2011

2.2 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS *(Cont'd)*

In November 2010, the HKICPA issued additions to HKFRS 9 to address financial liabilities (the "Additions") and incorporated in HKFRS 9 the current derecognition principles of financial instruments of HKAS 39. Most of the Additions were carried forward unchanged from HKAS 39, while changes were made to the measurement of financial liabilities designated at fair value through profit or loss using the fair value option ("FVO"). For these FVO liabilities, the amount of change in the fair value of a liability that is attributable to changes in credit risk must be presented in other comprehensive income ("OCI"). The remainder of the change in fair value is presented in profit or loss, unless presentation of the fair value change in respect of the liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. However, loan commitments and financial guarantee contracts which have been designated under the FVO are scoped out of the Additions.

HKAS 39 is aimed to be replaced by HKFRS 9 in its entirety. Before this entire replacement, the guidance in HKAS 39 on hedge accounting and impairment of financial assets continues to apply. The Company expects to adopt HKFRS 9 from 1 January 2015.

HKFRS 13 provides a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across HKFRSs. The standard does not change the circumstances in which the Company is required to use fair value, but provides guidance on how fair value should be applied where its use is already required or permitted under other HKFRSs. The Company expects to adopt HKFRS 13 prospectively from 1 January 2013.

Amendments to HKAS 1 change the grouping of items presented in OCI. Items that could be reclassified (or recycled) to profit or loss at a future point in time (for example, upon derecognition or settlement) would be presented separately from items which will never be reclassified. The Company expects to adopt the amendments from 1 January 2013.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Associates

An associate is an entity, not being a subsidiary or a jointly-controlled entity, in which the Company has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence.

The Company's associate was disposed in 2010, and the Company's share of the post-acquisition results up to the date of disposal and the gain on disposal was included in the Company's statement of comprehensive income upon disposal.

NOTES TO FINANCIAL STATEMENTS

31 December 2011

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

Related parties

A party is considered to be related to the Company if:

(a) the party is a person or a close member of that person's family and that person:

- (i) has control or joint control over the Company;
- (ii) has significant influence over the Company; or
- (iii) is a member of the key management personnel of the Company or of a parent of the Company;

or

(b) the party is an entity where any of the following conditions applies:

- (i) the entity and the Company are members of the same group;
- (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);
- (iii) the entity and the Company are joint ventures of the same third party;
- (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
- (v) the entity is a post-employment benefit plan for the benefit of employees of either the Company or an entity related to the Company;
- (vi) the entity is controlled or jointly controlled by a person identified in (a); and
- (vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

Investments and other financial assets

Initial recognition and measurement

Financial assets within the scope of HKAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial investments, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Company determines the classification of its financial assets at initial recognition. When financial assets are recognised initially, they are measured at fair value, plus transaction costs, except in the case of financial assets recorded at fair value through profit or loss.

NOTES TO FINANCIAL STATEMENTS

31 December 2011

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

Investments and other financial assets (Cont'd)

Initial recognition and measurement (Cont'd)

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Company commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

The Company's financial assets include cash and bank balances, prepayments, deposits and other receivables, and quoted and unquoted financial instruments.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments as defined by HKAS 39.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in other income and gains or finance costs in the statement of comprehensive income. These net fair value changes do not include any dividends or interest earned on these financial assets, which are recognised in accordance with the policies set out for "Revenue recognition" below.

Financial assets designated upon initial recognition at fair value through profit or loss are designated at the date of initial recognition and only if the criteria under HKAS 39 are satisfied.

The Company evaluates its financial assets at fair value through profit or loss (held for trading) to assess whether the intent to sell them in the near term is still appropriate. When, in rare circumstances, the Company is unable to trade these financial assets due to inactive markets and management's intent to sell them in the foreseeable future significantly changes, the Company may elect to reclassify these financial assets. The reclassification from financial assets at fair value through profit or loss to loans and receivables, available-for-sale financial assets or held-to-maturity investments depends on the nature of the assets. This evaluation does not affect any financial assets designated at fair value through profit or loss using the fair value option at designation, as these instruments cannot be reclassified after initial recognition.

NOTES TO FINANCIAL STATEMENTS

31 December 2011

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

Investments and other financial assets (Cont'd)

Financial assets at fair value through profit or loss (Cont'd)

Derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in the statement of comprehensive income. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance income in the statement of comprehensive income. The loss arising from impairment is recognised in the statement of comprehensive income in finance costs for loans and in other expenses for receivables.

Available-for-sale financial investments

Available-for-sale financial investments are non-derivative financial assets in listed and unlisted equity investments and debt securities. Equity investments classified as available for sale are those which are neither classified as held for trading nor designated at fair value through profit or loss. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in market conditions.

After initial recognition, available-for-sale financial investments are subsequently measured at fair value, with unrealised gains or losses recognised as other comprehensive income in the available-for-sale investment revaluation reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in the statement of comprehensive income in accumulated profits/losses, or until the investment is determined to be impaired, when the cumulative gain or loss is reclassified from the available-for-sale investment revaluation reserve to the statement of comprehensive income in accumulated profits/losses. Interest and dividends earned whilst holding the available-for-sale financial investments are reported as interest income and dividend income, respectively and are recognised in the statement of profit and loss as other income in accordance with the policies set out for "Revenue recognition" below.

NOTES TO FINANCIAL STATEMENTS

31 December 2011

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

Investments and other financial assets (Cont'd)

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

When the fair value of unlisted equity investments cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such investments are stated at cost less any impairment losses.

The Company evaluates whether the ability and intention to sell its available-for-sale financial assets in the near term are still appropriate. When, in rare circumstances, the Company is unable to trade these financial assets due to inactive markets and management's intent to do so significantly changes in the foreseeable future, the Company may elect to reclassify these financial assets. Reclassification to loans and receivables is permitted when the financial assets meet the definition of loans and receivables and the Company has the intent and ability to hold these assets for the foreseeable future or to maturity. Reclassification to the held-to-maturity category is permitted only when the Company has the ability and intent to hold until the maturity date of the financial asset.

For a financial asset reclassified from the available-for-sale category, the fair value carrying amount at the date of reclassification becomes its new amortised cost and any previous gain or loss on that asset that has been recognised in equity is amortised to profit or loss over the remaining life of the investment using the effective interest rate. Any difference between the new amortised cost and the maturity amount is also amortised over the remaining life of the asset using the effective interest rate. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to the income statement.

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- the rights to receive cash flows from the asset have expired; or
- the Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Company has transferred substantially all the risks and rewards of the asset, or (b) the Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

NOTES TO FINANCIAL STATEMENTS

31 December 2011

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

Derecognition of financial assets (Cont'd)

When the Company has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risk and reward of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Company's continuing involvement in the asset. In that case, the Company also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Company has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Company could be required to repay.

Impairment of financial assets

The Company assesses at the end of each reporting period whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (an incurred "loss event") and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Company first assesses individually whether objective evidence of impairment exists for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Company determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

NOTES TO FINANCIAL STATEMENTS

31 December 2011

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

Impairment of financial assets (Cont'd)

Financial assets carried at amortised cost (Cont'd)

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the statement of comprehensive income. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Company.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to other expenses in the statement of comprehensive income.

Available-for-sale financial investments

For available-for-sale financial investments, the Company assesses at the end of each reporting period whether there is objective evidence that an investment or a group of investments is impaired.

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the statement of comprehensive income, is removed from other comprehensive income and recognised in the statement of profit and loss.

In the case of equity investments classified as available for sale, objective evidence would include a significant or prolonged decline in the fair value of an investment below its cost. The determination of what is "significant" or ''prolonged" requires judgement. "Significant" is evaluated against the original cost of the investment and "prolonged" against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the statement of comprehensive income – is removed from other comprehensive income and recognised in the statement of profit and loss. Impairment losses on equity instruments classified as available for sale are not reversed through the statement of comprehensive income. Increases in their fair value after impairment are recognised directly in other comprehensive income.

NOTES TO FINANCIAL STATEMENTS

31 December 2011

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

Financial liabilities

Initial recognition and measurement

Financial liabilities within the scope of HKAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Company determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognised initially at fair value plus, in the case of loans and borrowings, directly attributable transaction costs.

The Company's financial liabilities include accruals and amount due to investment manager.

Subsequent measurement

Financial liabilities, other than those classified as at fair value through profit or loss, are measured at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss when the liabilities are derecognised, as well as through the amortisation process.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the statement of comprehensive income.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

NOTES TO FINANCIAL STATEMENTS

31 December 2011

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

Fair value of financial instruments

The fair value of financial instruments that are traded in active markets is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs. For financial instruments where there is no active market, the fair value is determined using appropriate valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; a discounted cash flow analysis; and option pricing models.

Cash and cash equivalents

For the purposes of the statement of cash flows and the statement of financial position, cash and cash equivalents comprise cash at bank, which is not restricted as to use, is subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, and form an integral part of the Company's cash management.

Fees and commissions

Unless included in the effective interest calculation, fees and commissions are recognised on an accrual basis.

Income tax

The Cayman Islands

Under the current Cayman Islands law, there are no income tax, corporation tax, capital gains tax or any other kinds of tax on profits or gains or tax in the nature of estate duty or inheritance tax currently in effect.

Hong Kong

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Company operates.

NOTES TO FINANCIAL STATEMENTS

31 December 2011

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

Income tax (Cont'd)

Hong Kong (Cont'd)

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries, associates and joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, the carryforward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries, associates and joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

NOTES TO FINANCIAL STATEMENTS

31 December 2011

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

Income tax (Cont'd)

Hong Kong (Cont'd)

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable, net of returns and discounts.

Interest income from a financial asset excluding financial assets at fair value through profit or loss is recognised on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts through the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset.

Dividend income from investments in securities is recognised when the shareholders' right to receive payment has been established.

Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained profits within the equity section of the statement of financial position, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

Interim dividends are simultaneously proposed and declared, because the Company's memorandum and articles of association grant the directors the authority to declare the interim dividends. Consequently, interim dividends are recognised immediately as liability when they are proposed and declared.

NOTES TO FINANCIAL STATEMENTS

31 December 2011

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

Foreign currencies

The financial statements are presented in United States dollars, which is the Company's presentation currency. Foreign currency transactions recorded by the Company are initially recorded using its functional currency rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the end of the reporting period. All differences are taken to the statement of profit and loss.

For the purpose arising on settlement or translation of monetary items 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 recognised in other comprehensive income and accumulated in equity.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. The gain or loss arising on the retranslation of non-monetary items is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation differences on item whose fair value gains and losses are recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

Retirement benefit costs

The Company operates a defined contribution Mandatory Provident Fund retirement benefit scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance for all of its employees. Contributions are made based on a percentage of the employees' basic salaries and are charged to the statement of profit and loss as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Company in an independently administered fund. The Company's employer contributions vest fully with the employees when contributed into the MPF Scheme.

NOTES TO FINANCIAL STATEMENTS

31 December 2011

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Company's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

JUDGEMENTS

In the process of applying the Company's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

Going concern

The Company's management has made an assessment on the Company's ability to continue as a going concern and is satisfied that the Company has the resources to continue in business for the foreseeable future. Furthermore, management is not aware of any material uncertainties that may cast significant doubt upon the Company's ability to continue as a going concern. Therefore, the financial statements continue to be prepared on the going concern basis.

ESTIMATION UNCERTAINTY

The key assumption concerning the future and other key sources of estimation uncertainty at the end of the reporting period, that has a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below.

Fair value of financial instruments

When the fair value of financial assets recorded in the statement of financial position cannot be derived from active markets, their fair value is determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are taken from observable markets where possible, but where this is not feasible, estimation is required in establishing fair values. The estimates include considerations of liquidity and model inputs such as share price of underlying investment, correlation, volatility and transaction of shares. Changes in assumptions about these factors could affect the reported fair value of financial instruments in the statement of financial position and the level where the instruments are disclosed in the fair value hierarchy.

HKFRS 7 requires disclosures relating to fair value measurements using a three-tier fair value hierarchy that reflects the significance of the inputs used in measuring fair values. The level in the fair value hierarchy within which the fair value measurement is categorised in its entirety is determined in the basis of the lowest level input that is significant to the fair value measurement in its entirety. For this purpose, the significance of an input is assessed against the fair value measurement in its entirety. If a fair value measurement uses observable inputs that require significant adjustments based on unobservable inputs, then that measurement is a Level 3 measurement. Assessing the significance of a particular input to the fair value measurement in its entirety requires judgement, considering factors specific to the asset or liability. To assess the significance of a particular input to the entire measurement, the Company performs sensitivity analysis.

The fair value of unlisted available-for-sale investments and unlisted financial assets at fair value through profit or loss at 31 December 2011 was US$1,022,544 (2010: US$2,031,676) and US$14,200,000 (2010: US$10,380,293), respectively. Details are included in notes 10 and 11 to the financial statements, respectively.

NOTES TO FINANCIAL STATEMENTS

31 December 2011

4. OPERATING SEGMENT INFORMATION

For management purposes and information used by the Company's executive directors as the chief operating decision makers, the Company is organised into business units based on the categories of investments and has two reportable operating segments as follows:

Listed securities	–	Investments in equity securities listed on relevant stock exchanges
Unlisted securities	–	Investments in unlisted equity securities and redeemable convertible preference shares

Further details of the Company's investments are included in notes 10 and 11 to the financial statements.

The following is an analysis of the Company's results by operating segments:

	Listed securities US$	**Unlisted securities** US$	**Total** US$
Year ended 31 December 2011			
Segment result	**(619,975)**	**4,206,569**	**3,586,594**
Bank interest income			**35,665**
Exchange gain			**40,776**
Unallocated expenses			**(964,455)**
Profit before tax			**2,698,580**
Year ended 31 December 2010			
Segment result	263,622	12,125,839	12,389,461
Bank interest income			10,614
Exchange gain			11,313
Unallocated expenses			(2,181,254)
Profit before tax			10,230,134

NOTES TO FINANCIAL STATEMENTS

31 December 2011

4. OPERATING SEGMENT INFORMATION *(Cont'd)*

For the year ended 31 December 2011, segment results represented the net gain/loss on disposal of listed and unlisted equity securities classified as available-for-sale investments, gain on disposal of an associate, impairment loss recognized in respect of available-for-sale investments, net gain/loss on fair value of investments in redeemable convertible preference shares designated upon initial recognition as financial assets at fair value through profit or loss, and the corresponding interest income as well as dividend income earned by each segment without the allocation of administrative expenses and interest income as well as investment manager's fees.

As management considers the Company's nature of business is investment holding, there was no information regarding major customers as determined by the Company and no segment revenue is presented.

The following is an analysis of the Company's assets by operating segments:

	Listed securities US$	**Unlisted securities** US$	**Total** US$
At 31 December 2011			
Available-for-sale investments	**915,216**	**1,022,544**	**1,937,760**
Financial assets at fair value through profit or loss	**–**	**14,200,000**	**14,200,000**
Total segment assets	**915,216**	**15,222,544**	**16,137,760**
Unallocated assets			**7,717,341**
Total assets			**23,855,101**
At 31 December 2010			
Available-for-sale investments	1,995,593	2,031,676	4,027,269
Financial assets at fair value through profit or loss	–	10,380,293	10,380,293
Total segment assets	1,995,593	12,411,969	14,407,562
Unallocated assets			18,009,860
Total assets			32,417,422

NOTES TO FINANCIAL STATEMENTS

31 December 2011

4. OPERATING SEGMENT INFORMATION *(Cont'd)*

For the purpose of monitoring segment performance and allocating resources between segments, all assets are allocated to reportable segments other than prepayments and other receivables, and cash and bank balances.

All liabilities as at 31 December 2011 and 31 December 2010 are unallocated liabilities.

5. PROFIT BEFORE TAX

The Company's profit before tax is arrived at after charging:

	2011	2010
	US$	US$
Auditors' remuneration	**33,187**	42,519
Custodian fee	**12,266**	13,071
Staff costs (excluding directors' remuneration)		
Salaries and other benefits of an employee	**68,593**	58,803
Retirement benefits costs	**6,447**	5,606

6. DIRECTORS' REMUNERATION

Directors' remuneration for the year, disclosed pursuant to the Rules Governing the Listing of Securities (the "Listing Rules") of the Hong Kong Stock Exchange and Section 161 of the Hong Kong Companies Ordinance, is as follows:

	2011	2010
	US$	US$
Fees:		
Dr. HUA Min	**15,431**	12,869
Mr. ONG Ka Thai	**15,431**	12,869
Mr. YICK Wing Fat, Simon	**15,431**	12,869
	46,293	38,607

Except for the directors' fee paid to the independent non-executive directors totalling US$46,293 (2010: US$38,607), none of the directors has received any emoluments for both years.

There were no other emoluments payable to the directors during the year (2010: Nil).

NOTES TO FINANCIAL STATEMENTS

31 December 2011

7. INCOME TAX

No provision for Hong Kong profits tax has been made in the financial statements as the Company did not generate assessable profits arising in Hong Kong for the year ended 31 December 2011 (2010: Nil).

	2011	2010
	US$	US$
Current – Hong Kong		
Underprovision in prior years	**210,000**	–

A reconciliation of the tax expense applicable to profit before tax at the statutory rate to the tax expense at the effective tax rate, and a reconciliation of the statutory tax rate to the effective tax rate, are as follows:

	2011		2010	
	US$	**%**	US$	%
Profit before tax	**2,698,580**		10,230,134	
Tax at the statutory tax rate	**445,266**	**16.5**	1,687,972	16.5
Adjustments in respect of				
current tax of previous periods	**210,000**	**7.8**	–	–
Income not subject to tax	**(808,355)**	**(30.0)**	(2,377,237)	(23.2)
Expenses not deductible for tax	**363,089**	**13.5**	689,265	6.7
Tax charge at the effective rate	**210,000**	**7.8**	–	–

8. PROPOSED DIVIDEND

	2011	2010
	US$	US$
Proposed final dividend – US$0.10 (2010 special final dividend: US$1.00) per ordinary share	**890,500**	8,905,000

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting. The 2010 special final dividend was paid out of the Company's share premium account.

NOTES TO FINANCIAL STATEMENTS

31 December 2011

9. EARNINGS PER SHARE – BASIC AND DILUTED

The calculation of basic earnings per share is based on profit for the year of US$2,488,580 (2010: US$10,230,134) and the weighted average number of ordinary shares of 8,905,000 (2010: 8,905,000) in issue during the year.

The Company had no potentially dilutive ordinary shares in issue during the years ended 31 December 2011 and 2010.

10. AVAILABLE-FOR-SALE INVESTMENTS

	Notes	2011 US$	2010 US$
Non-current:			
Listed equity investments, at fair value:			
Hong Kong		**915,216**	1,995,593
Unlisted equity investments, at fair value:			
Mainland China	*(iii)*	**–**	500,000
Taiwan	*(ii)*	**522,544**	1,531,676
		1,437,760	4,027,269
Current:			
Unlisted equity investments, at fair value:			
Mainland China	*(iii)*	**500,000**	–
		1,937,760	4,027,269

Notes:

(i) The Company's investments in listed equity securities are held for long-term and are non-trading in nature and are designated as available-for-sale investments. Fair values of the investments in listed equity securities are determined by reference to bid prices quoted in active markets.

During the year, the gross fair value loss in respect of the Company's available-for-sale investments recognised in other comprehensive income amounted to US$1,694,480 (2010: gain of US$491,314), of which a loss of US$657,104 (2010: gain of US$233,727) was reclassified from other comprehensive income to the profit or loss account upon disposal for the year.

(ii) Unlisted shares of C-Media Electronic Inc., a company listed in Taiwan, were acquired by the Company under a private placement subscription on 11 May 2010. The Company is subject to a maximum three-year lock-up restriction under the rules of the relevant jurisdiction from that day.

(iii) At the end of the reporting period, the Company's investments in unlisted equity securities included China Material Technology Limited ("CMT") with a carrying amount of US$500,000 (31 December 2010: US$500,000). The Company's investment in CMT represented a 2.96% (31 December 2010: 2.96%) equity interest therein. A wholly-owned subsidiary of CMT ("CMT's subsidiary") engages in the supply of construction materials in the People's Republic of China ("PRC"). A shareholders' meeting of CMT was held on 21 June 2011 where shareholders had decided to accept an offer from an independent third party to purchase 74% equity interest in CMT's subsidiary based on the net asset value of CMT's subsidiary as at 31 March 2011. The sale proceeds are expected to be distributed before end of 2012 to the shareholders of CMT on a pro rata basis, according to their respective shareholding interest.

(iv) As at 31 December 2011 and 2010, the Company's investments in unlisted equity securities included fully impaired equity securities of Shanghai Hua Xin High Biotechnology Inc. and Shanghai Xinpu Transportation Co., Ltd..

NOTES TO FINANCIAL STATEMENTS

31 December 2011

11. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2011	2010
	US$	US$
Non-current:		
Redeemable convertible preference shares		
– Global Market International Limited ("GMIL")	**–**	580,293
Current:		
Redeemable convertible preference shares		
– Global Market Group Limited ("GMG")	**14,200,000**	9,800,000

The above financial assets at 31 December 2011 and 2010 were upon initial recognition, designated by the Company as at fair value through profit or loss.

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

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

On 9 November 2010, the board of directors of GMG resolved a distribution of a special dividend to GMG's shareholders for acquiring the shares in its spun-off business entity, GMIL. The Company subscribed 169,334 Series A Preferred Shares and 2,248,553 Series B Preferred Shares in GMIL ("GMIL Preferred Shares") for a total consideration of US$580,293 settled by the special dividend received from 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 on a recognised stock exchange, conditional of achieving a specified minimum amount of market capitalisation. GMG Preferred Shares and GMIL Preferred Shares are redeemable by the Company after 31 December 2011 and 31 December 2013, respectively, at 100%, repayable over the subsequent three years, and will bear interest at 8% per annum from that respective redemption date.

The board of directors is of the opinion that the fair value of GMG and GMIL amounted to US$14,200,000 and zero as at 31 December 2011, respectively (2010: US$9,800,000 and US$580,293, respectively).

NOTES TO FINANCIAL STATEMENTS

31 December 2011

12. PREPAYMENTS AND OTHER RECEIVABLES

	2011	2010
	US$	US$
Prepayments	**48,090**	38,721
Other receivables	**861,112**	942,999
	909,202	981,720

Included in other receivables is an amount due from a shareholder of US$851,583 (2010: US$812,617), which is unsecured, interest-free and repayable on demand.

13. CASH AND BANK BALANCES

Cash at bank earns interest at floating rates based on daily bank deposit rates. Cash and bank balances are deposited with a creditworthy bank, which management believes is of high credit quality.

14. SHARE CAPITAL

	2011	2010
	US$	US$
Authorised:		
18,000,000 (2010: 18,000,000) ordinary shares of US$0.10 each	**1,800,000**	1,800,000
Issued and fully paid:		
8,905,000 (2010: 8,905,000) ordinary shares of US$0.10 each	**890,500**	890,500

15. NET ASSET VALUE PER SHARE

The calculation of net asset value ("NAV") per share is based on the Company's NAV as at 31 December 2011 of US$23,594,264 (31 December 2010: US$31,048,060) and the number of ordinary shares of 8,905,000 in issue as at 31 December 2011 (31 December 2010: 8,905,000).

NOTES TO FINANCIAL STATEMENTS

31 December 2011

16. RELATED PARTY TRANSACTIONS

(a) In addition to the transactions detailed elsewhere in these financial statements, the Company had the following transactions with related parties during the year:

	2011 **US$**	2010 US$
Investment management and administration fees charged by the investment manager	**506,075**	530,817
Incentive fee charged by the investment manager	**–**	1,306,530

Certain directors of the investment manager, Shanghai International Asset Management (H.K.) Co., Ltd. (the "Investment Manager"), are common directors of the Company.

In accordance with the terms of the investment management agreement and the six supplemental agreements (collectively the "Investment Management Agreements"), the management and administration fees are calculated and payable quarterly in advance at 0.5% of the NAV (calculated before deductions of the fees payable to the Investment Manager, 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 excess amount by which the NAV of the Company as at 31 December 2011 exceeding 115% of the NAV of the Company as at 31 December 2010. The actual amount of special dividends paid out in 2011 shall be deducted from the NAV of the Company as at 31 December 2010 when calculating the growth of the NAV. In the event that the Company raises new capital in 2011, and for the purpose of determining the incentive fee, such new capital shall be deducted from the NAV of the Company as at 31 December 2011.

During the year ended 31 December 2011, the Investment Manager was not entitled to receive an incentive fee in relation to the performance of the Company (2010: US$1,306,530), in accordance with the incentive fee calculation of the Investment Management Agreements.

The above related party transactions also constitute continuing connected transactions as defined in Chapter 14A of the Listing Rules.

(b) Outstanding balances with related parties:

(i) Amount due to the Investment Manager is unsecured, interest-free, and repayable on demand.

(ii) Other receivables comprise an amount due from a shareholder of the Company of US$851,583 (2010: US$812,618), which is unsecured, interest-free and repayable on demand.

NOTES TO FINANCIAL STATEMENTS

31 December 2011

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

(c) Compensation of key management personnel of the Company:

The key management personnel of the Company comprise the directors of the Company. Details of directors' emoluments are disclosed in note 6 to the financial statements.

17. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows:

2011

Financial assets	**Financial assets at fair value through profit or loss* US$**	**Loans and receivables US$**	**Available-for-sale financial assets US$**	**Total US$**
Financial assets at fair value through profit or loss	**14,200,000**	**–**	**–**	**14,200,000**
Available-for-sale investments	**–**	**–**	**1,937,760**	**1,937,760**
Financial assets included in prepayments and other receivables	**–**	**861,112**	**–**	**861,112**
Cash and bank balances	**–**	**6,808,139**	**–**	**6,808,139**
	14,200,000	**7,669,251**	**1,937,760**	**23,807,011**

* Designated as such upon initial recognition

Financial liabilities	**Financial liabilities at amortised cost US$**
Amount due to investment manager	**6,200**

NOTES TO FINANCIAL STATEMENTS

31 December 2011

17. FINANCIAL INSTRUMENTS BY CATEGORY *(Cont'd)*

2010

Financial assets	Financial assets at fair value through profit or loss* US$	Loans and receivables US$	Available-for-sale financial assets US$	Total US$
Financial assets at fair value through profit or loss	10,380,293	–	–	10,380,293
Available-for-sale investments	–	–	4,027,269	4,027,269
Financial assets included in prepayments and other receivables	–	942,999	–	942,999
Cash and bank balances	–	17,028,140	–	17,028,140
	10,380,293	17,971,139	4,027,269	32,378,701

* Designated as such upon initial recognition

Financial liabilities	Financial liabilities at amortised cost US$
Amount due to investment manager	1,323,893

18. FAIR VALUE HIERARCHY

The available-for-sale investments and financial assets at fair value through profit or loss held by the Company (both current and non-current assets) are carried at fair value. All other financial assets and liabilities are carried at amortised cost and approximate their respective fair values due to the relatively short-term nature of these financial instruments.

The Company uses the following hierarchy for determining and disclosing the fair values of financial instruments:

Level 1: fair values measured based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2: fair values measured based on valuation techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly

Level 3: fair values measured based on valuation techniques for which any inputs which have a significant effect on the recorded fair value are not based on observable market data (unobservable inputs)

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31 December 2011

18. FAIR VALUE HIERARCHY *(Cont'd)*

	Level 1	Level 2	Level 3	Total
	US$	US$	US$	US$
31 December 2011				
Financial assets at FVTPL				
Unlisted redeemable convertible preference shares	**–**	**–**	**14,200,000**	**14,200,000**
Available-for-sale financial assets				
Listed equity securities	**915,216**	**–**	**–**	**915,216**
Unlisted equity securities	**–**	**–**	**1,022,544**	**1,022,544**
Total	**915,216**	**–**	**15,222,544**	**16,137,760**
31 December 2010				
Financial assets at FVTPL				
Unlisted redeemable convertible preference shares	–	–	10,380,293	10,380,293
Available-for-sale financial assets				
Listed equity securities	1,995,593	–	–	1,995,593
Unlisted equity securities	–	–	2,031,676	2,031,676
Total	1,995,593	–	12,411,969	14,407,562

During the year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfer into and out of Level 3 fair value measurements.

The Company did not have any financial liabilities measured at fair value as at 31 December 2011 and 2010.

NOTES TO FINANCIAL STATEMENTS

31 December 2011

18. FAIR VALUE HIERARCHY *(Cont'd)*

RECONCILIATION OF LEVEL 3 FAIR VALUE MEASUREMENTS OF FINANCIAL ASSETS:

Financial assets at fair value through profit or loss

	2011	2010
	US$	US$
At 1 January	**10,380,293**	8,100,500
Net change in unrealized gain recognised in the statement of comprehensive income	**3,819,707**	4,219,932
Redemption during the year	**–**	(3,367,890)
Purchase	**–**	1,427,751
At 31 December	**14,200,000**	10,380,293

Available-for-sale investments

	2011	2010
	US$	US$
At 1 January	**2,031,676**	2,500,000
Net change in unrealized gain recognised in other comprehensive income	**(1,009,132)**	(1,727,638)
Purchase	**–**	1,259,314
At 31 December	**1,022,544**	2,031,676

SIGNIFICANT ASSUMPTIONS USED IN DETERMINING THE FAIR VALUE OF LEVEL 3 FINANCIAL ASSETS

Financial assets at fair value through profit or loss

As at 31 December 2011 and 2010, the holdings of redeemable convertible preference shares in GMG are measured at fair value *(Note 11)*. 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 31 December 2011, that are not supportable by observable market prices or rates. In determining the fair value, a terminal growth rate of 3% and a risk adjusted discount factor of 17.1% 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 gain in fair value estimated using a valuation technique that was recognised in the profit or loss during the year is US$4,400,000.

NOTES TO FINANCIAL STATEMENTS

31 December 2011

18. FAIR VALUE HIERARCHY *(Cont'd)*

SIGNIFICANT ASSUMPTIONS USED IN DETERMINING THE FAIR VALUE OF LEVEL 3 FINANCIAL ASSETS *(Cont'd)*

Financial assets at fair value through profit or loss (Cont'd)

If these inputs (growth rate and discount rate) to the valuation model were 5% higher/lower while all the other variables were held constant, the carrying amount of the shares would decrease/increase by US$693,384/US$766,698, respectively.

As at 31 December 2011, save as disclosed above the Level 3 sensitivity analysis for the investment in GMG, a change in one or more of the inputs to reasonably possible alternative assumptions did not significantly change the fair values of the other financial assets at fair value through profit or loss and available-for-sale investments. As a result, no sensitivity analyses are disclosed for these investments other than the investment in GMG.

19. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Company's principal financial instruments include investments in listed securities, unlisted securities and redeemable convertible preference shares, cash and bank balances and amount due to the Investment Manager. The main risks arising from the Company's financial instruments are equity price risk, foreign currency risk, interest rate risk, credit risk and liquidity risk. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below:

MARKET RISK

The Company's exposures to market risk include equity price risk, foreign currency risk and interest rate risk.

(i) Equity price risk

Equity price risk is the risk that the fair values of equity securities decrease as a result of changes in the levels of equity indices and the value of individual securities. The Company is exposed to equity price risk arising from individual listed equity investments classified as available-for-sale equity investments *(Note 10)* as at 31 December 2011, as well as financial assets at fair value through profit or loss as at 31 December 2011 *(Note 11)*.

NOTES TO FINANCIAL STATEMENTS

31 December 2011

19. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Cont'd)*

MARKET RISK *(Cont'd)*

(i) Equity price risk (Cont'd)

Available-for-sale investments

The Company's listed equity investments are listed on the Hong Kong Stock Exchange and are valued at quoted market prices at the end of the reporting period.

The market equity index for the Hong Kong Stock Exchange at the close of business of the nearest trading day in the year to the end of the reporting period, and their respective highest and lowest points during the year is as follows:

	31 December 2011	**High/low 2011**	31 December 2010	High/low 2010
Hong Kong – Hang Seng Index ("HSI")	**18,434**	**24,420/ 16,250**	23,035	24,964/ 18,985

The Company views the HSI as an indication of a reasonably possible market movement for its listed Hong Kong securities. The following table demonstrates the sensitivity to a reasonably possible 14.38% (2010: 5%) change in the fair values of the equity investments, with all other variables held constant and before any impact on tax, based on their carrying amounts at the end of the reporting period. For the purpose of this analysis, for the available-for-sale equity investments, the impact is deemed to be on the available-for-sale investment revaluation reserve and no account is given for the factors such as impairment which might impact the statement of comprehensive income.

	Carrying amount of equity investments US$	**Increase/ decrease in profit before tax** US$	**Increase/ decrease in available-for-sale reserves** US$
2011			
Investments listed in Hong Kong Available-for-sale	**915,216**	**–**	**131,644**
2010			
Investments listed in Hong Kong Available-for-sale	1,995,593	–	99,780

NOTES TO FINANCIAL STATEMENTS

31 December 2011

19. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Cont'd)*

MARKET RISK *(Cont'd)*

(i) Equity price risk (Cont'd)

Financial assets at fair value through profit or loss

In analysing the equity price risk of the Company's investment in GMG, the Company references the stock price of a listed competitor company with a business similar to that of GMG in Mainland China. The average stock price of that competitor company in 2011 is HKD8.977 (2010: HKD9.25), which represents a 3% change. Although the competitor company is larger in size, the Company views the competitor's stock price as an indication of a reasonably possible market movement for its investment in GMG as they are both in the same industry and in the same market.

The following table demonstrates the sensitivity to a reasonably possible 3% (2010: 5%) change in the fair values of the investment in GMG, with all other variables held constant and before any impact on tax, based on their carrying amounts at the end of the reporting period.

`	**Carrying amount of financial assets at fair value through profit or loss** US$	**Increase/ decrease in profit before tax** US$
2011		
Investment in GMG	**14,200,000**	**426,000**
2010		
Investment in GMG	9,800,000	490,000

(ii) Foreign currency risk

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

The Company is mainly exposed to fluctuation in exchange rate of RMB and TWD against US$. As HKD is pegged to USD, the exposure to fluctuations in exchange rate of HKD is not considered to be significant and thus this effect is not considered in the sensitivity analysis below.

NOTES TO FINANCIAL STATEMENTS

31 December 2011

19. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Cont'd)*

MARKET RISK *(Cont'd)*

(ii) Foreign currency risk (Cont'd)

The management adjusted the sensitivity rate between USD and RMB from 3.5% in 2010 to 4.4% in 2011, and the sensitivity rate between USD and TWD from 8.0% in 2010 to 3.6% in 2011 for assessing the currency risk, after considering the average exchange rate between USD and RMB and between USD and TWD in 2011.

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in RMB and TWD exchange rates against USD, with all other variables held constant, on the Company's profit before tax and the Company's equity:

	Increase/ (decrease) in foreign currency rate %	Increase/ (decrease) in profit before tax US$	Increase/ (decrease) in equity* US$
2011			
If the USD weakens against RMB	**4.4**	**–**	**37,470**
If the USD strengthens against RMB	**(4.4)**	**–**	**(37,470)**
If the USD weakens against TWD	**3.6**	**–**	**20,513**
If the USD strengthens against TWD	**(3.6)**	**–**	**(20,513)**
2010			
If the USD weakens against RMB	3.5	–	28,442
If the USD strengthens against RMB	(3.5)	–	(28,442)
If the USD weakens against TWD	8.0	–	136,093
If the USD strengthens against TWD	(8.0)	–	(136,093)

* Excluding retained profits

(iii) Interest rate risk

Management closely monitors interest rate movements and manages 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.

The Company is exposed to cash flow interest rate risk through the impact of rate changes on interest-bearing financial assets which are variable rate bank balances of US$6,768,486 (2010: US$10,900,565).

NOTES TO FINANCIAL STATEMENTS

31 December 2011

19. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Cont'd)*

MARKET RISK *(Cont'd)*

(iii) Interest rate risk (Cont'd)

The sensitivity analysis has been determined based on the exposure to interest rates at the end of the reporting year. A 10 (2010: 5) basis point increase or decrease represents management's assessment of the reasonably possible change in interest rates.

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

If interest rates had been 10 (2010: 5) basis points higher/lower and all other variables were held constant, the Company's profit for the year ended 31 December 2011 would increase/decrease by US$6,768 (2010: US$5,450). This is mainly attributable to the Company's exposure to interest rates on its variable-rate bank balances.

CREDIT RISK

Credit risk is the risk that the counterparty to a financial instrument will cause a financial loss for the Company by failing to discharge an obligation.

The Company is exposed to the risk of credit-related losses that can occur as a result of a counterparty or issuer being unable or unwilling to honour its contractual obligations. These credit exposures exist within financing relationships and other transactions.

It is the Company's policy to enter into financial instruments with reputable counterparties.

The Investment Manager closely monitors the creditworthiness of the Company's counterparties (e.g., brokers, custodian and banks) by reviewing their credit ratings, financial statements and press releases on a regular basis.

The Company is exposed to credit risk on its cash and cash equivalents and investments placed with Standard Chartered Bank (Hong Kong) Limited, the Company's custodian, which management believes is of high credit quality.

LIQUIDITY RISK

Liquidity risk is the risk that the Company will encounter difficulty in raising funds to meet commitments associated with financial instruments. The Company's strategy is to minimise its exposure to liquidity risk by monitoring the Company's liquid capital from time to time. 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.

NOTES TO FINANCIAL STATEMENTS

31 December 2011

19. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Cont'd)*

LIQUIDITY RISK *(Cont'd)*

The following table summarises the maturity profile of the Company's financial liabilities based on contractual undiscounted cash flows. Balances due within six months equal their carrying amounts, as the impact of discounting is insignificant. The table also analyses the maturity profile of the Company's financial assets (undiscounted where appropriate) in order to provide a complete view of the Company's contractual commitments and liquidity.

The maturity grouping of financial liabilities is based on the remaining period from the end of the reporting period to the contractual maturity date. When a counterparty has a choice of when the amount is paid, the liability is allocated to the earliest period in which the Company can be required to pay.

Analysis of available-for-sale equity securities and financial assets at fair value through profit or loss into maturity groupings is based on the expected date on which these assets will be realised. For other assets, the analysis into maturity groupings is based on the remaining period from the end of the reporting period to the contractual maturity date or, if earlier, the expected date on which the assets will be realised.

The maturity profile of the Company's financial assets and liabilities as at the end of the reporting period are as follows:

	On demand US$	Less than 1 year US$	1 to 5 years US$	Total US$
2011				
Financial assets at fair value through profit or loss	–	14,200,000	–	14,200,000
Available-for-sale equity securities	–	500,000	1,437,760	1,937,760
Financial assets included in prepayments and other receivables	–	861,112	–	861,112
Cash and cash equivalents	6,808,139	–	–	6,808,139
Total financial assets	6,808,139	15,561,112	1,437,760	23,807,011
Amount due to Investment Manager	6,200	–	–	6,200
Total financial liabilities	6,200	–	–	6,200

NOTES TO FINANCIAL STATEMENTS

31 December 2011

19. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Cont'd)*

LIQUIDITY RISK *(Cont'd)*

	On demand US$	Less than 1 year US$	1 to 5 years US$	Total US$
2010				
Financial assets at fair value through profit or loss	–	9,800,000	580,293	10,380,293
Available-for-sale equity securities	–	–	4,027,269	4,027,269
Financial assets included in prepayments and other receivables	–	942,999	–	942,999
Cash and cash equivalents	17,028,140	–	–	17,028,140
Total financial assets	17,028,140	10,742,999	4,607,562	32,378,701
Amount due to Investment Manager	17,363	1,306,530	–	1,323,893
Total financial liabilities	17,363	1,306,530	–	1,323,893

CAPITAL MANAGEMENT

The primary objectives of the Company's capital management are to safeguard the Company's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

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. To maintain or adjust the capital structure, the Company may adjust the dividend payment to shareholders. The Company is not subject to any externally imposed capital requirements. On 12 May 2011, the Company amended its Memorandum and Articles of Association to allow for profits arising from realisation of investments to be available for distribution to shareholders as dividends. Profits arising from revaluation of investments may also be available for distribution as dividends if approved by the board of directors. No other changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2011 and 31 December 2010.

20. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 15 March 2012.

FIVE YEAR FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Company for the last five financial years, as extracted from the published audited financial statements and reclassified as appropriate, is set out below:

	Year ended 31 December				
	2007	2008	2009	2010	**2011**
	US$'000	US$'000	US$'000	US$'000	**US$'000**
RESULTS					
Income	5,219	197	1,439	14,411	**4,320**
Expenses	(955)	(2,199)	(739)	(4,181)	**(1,621)**
Profit/(loss) before tax	4,264	(2,002)	700	10,230	**2,699**
Tax	–	–	–	–	**(210)**
Profit/(loss) for the year	4,264	(2,002)	700	10,230	**2,489**
Earnings/(loss) per share (cents)					
– Basic and diluted	47.88	(22.48)	7.86	114.88	**27.95**

	At 31 December				
	2007	2008	2009	2010	**2011**
	US$'000	US$'000	US$'000	US$'000	**US$'000**
ASSETS AND LIABILITIES					
Total assets	27,248	21,786	21,605	32,417	**23,855**
Total liabilities	(235)	(165)	(154)	(1,369)	**(261)**
	27,013	21,621	21,451	31,048	**23,594**
Net asset value per share	US$3.03	US$2.43	US$2.41	US$3.49	**US$2.65**