1. GENERAL

The Company is a public limited company incorporated in Hong Kong and its shares are listed on The Stock Exchange of Hong Kong Limited. The addresses of the registered office and principal place of business of the Company are disclosed in the corporate information to the annual report.

The Company acts as an investment holding company. The activities of the principal subsidiaries and associates are set out in notes 29 and 15 respectively to the financial statements.

The functional currency of the Company is United States dollar which is also the presentation currency of the financial statements.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

A. In the current year, the Group has applied, for the first time, a number of new Hong Kong Financial Reporting Standards ("HKFRSs"), Hong Kong Accounting Standards ("HKASs") and Interpretations (hereinafter collectively referred to as "new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants that are effective for accounting periods beginning on or after 1 January 2005. The application of the new HKFRSs has resulted in a change in the presentation of the consolidated income statement and consolidated balance sheet and there is no material impact on the Company's balance sheet. In particular, the presentation of share of tax of associates has been changed. The change in presentation has been applied retrospectively. The application of the new HKFRSs has resulted in changes to the Group's accounting policies in the following areas that have an effect on how the results for the current or prior accounting periods are prepared and presented.

Financial instruments

In the current year, the Group has applied HKAS 32 "Financial instruments: Disclosure and Presentation" ("HKAS 32") and HKAS 39 "Financial instruments: Recognition and Measurement" ("HKAS 39"). HKAS 32 requires retrospective application. The application of HKAS 32 has had no material impact on how financial instruments of the Group are presented for current and prior accounting periods. HKAS 39 which is effective for annual periods beginning on or after 1 January 2005, generally does not permit the recognition, de-recognition or measurement of financial assets and liabilities on a retrospective basis. The principal effects resulting from the implementation of HKAS 39 are summarised below.

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

A. Financial instruments (continued)

Classification and measurement of financial assets and financial liabilities

The Group has applied the relevant transitional provisions in HKAS 39 with respect to the classification and measurement of financial assets and financial liabilities that are within the scope of HKAS 39.

Up to 31 December 2004, the Group classified and measured its debt and equity securities in accordance with the benchmark treatment of Statement of Standard Accounting Practice 24 ("SSAP 24"). Under SSAP 24, investments in debt or equity securities are classified as "investment securities", "other investments" or "held-to-maturity investments" as appropriate. "Investment securities" are carried at cost less impairment losses (if any) while "other investments" are measured at fair value, with unrealised gains or losses included in profit or loss. Held-to-maturity investments are carried at amortised cost less impairment losses (if any). From 1 January 2005 onwards, the Group has classified and measured its debt and equity securities in accordance with HKAS 39. Under HKAS 39, financial assets are classified as "financial assets at fair value through profit or loss", "available-for-sale financial assets", "loans and receivables", or "held-to-maturity financial assets". "Financial assets at fair value through profit or loss" and "available-for-sale financial assets" are carried at fair value, with changes in fair values recognised in profit or loss and equity respectively. "Loans and receivables" and "held-to-maturity financial assets" are measured at amortised cost using the effective interest method.

On 1 January 2005, the Group classified and measured its debt and equity securities in accordance with the transitional provisions of HKAS 39. Other investments and held-to-maturity investments classified under investments in securities with carrying amount of US$89,804,598 and US$5,697,767 were re-classified to financial assets at fair value through profit and loss and other investments in financial assets including held-to-maturity financial assets and loans and receivables on 1 January 2005 respectively.

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

B. Summary of the effects of the changes in accounting policies

The effects of the application of the new HKFRSs are summarised below:

	2005	2004
	US$	US$
Income statement items:		
Decrease in share of results of associates	**(193,531)**	(117,253)
Decrease in taxation	**193,531**	117,253
Change in profit for the year	**–**	–

The Group has not early applied the following new standards, amendments and interpretations that have been issued but are not yet effective for the year ended 31 December 2005. The Group considers that it is not yet in a position to reasonably ascertain how the following new standards, amendments and interpretations may affect the preparation and presentation of the results of operations and financial position of the Group.

HKAS 1 (Amendment)	Capital disclosures[1]
HKAS 19 (Amendment)	Actuarial gains and losses, group plans and disclosures[2]
HKAS 21 (Amendment)	Net investment in a foreign operation[2]
HKAS 39 (Amendment)	Cash flow hedge accounting of forecast intragroup transactions[2]
HKAS 39 (Amendment)	The fair value option[2]
HKAS 39 & HKFRS 4 (Amendments)	Financial guarantee contracts[2]
HKFRS 6	Exploration for and evaluation of mineral resources[2]
HKFRS 7	Financial instruments: Disclosures[1]
HK (IFRIC)-INT 4	Determining whether an arrangement contains a lease[2]
HK (IFRIC)-INT 5	Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds[2]
HK (IFRIC)-INT 6	Liabilities arising from participating in a specific market-waste electrical and electronic equipment[3]
HK (IFRIC)-INT 7	Applying the restatement approach under HKAS 29 Financial Reporting in Hyperinflationary Economies[4]

1 Effective for annual periods beginning on or after 1 January 2007.
2 Effective for annual periods beginning on or after 1 January 2006.
3 Effective for annual periods beginning on or after 1 December 2005.
4 Effective for annual periods beginning on or after 1 March 2006.

3. SIGNIFICANT ACCOUNTING POLICIES

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

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

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31 December each year.

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

All inter-company transactions and balances within the Group have been eliminated on consolidation.

Investments in subsidiaries

Investments in subsidiaries are included in the Company's balance sheet at cost, less any identified impairment loss.

Interests in associates

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments

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

Financial assets

Financial assets are classified into one of the three categories, including financial assets at fair value through profit or loss, loans and receivables and held-to-maturity financial assets. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace. The accounting policies adopted in respect of each category of financial assets are set out below.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are those designated at fair value through profit or loss on initial recognition. They comprise a group of financial assets managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy. At each balance sheet date subsequent to initial recognition, financial assets at fair value through profit or loss are measured at fair value, with changes in fair value recognised directly in profit or loss in the period in which they arise.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables (including dividend, interest and other receivables and bank balances) are carried at amortised cost using the effective interest method, less any impairment losses. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets (continued)

Held-to-maturity financial assets

Held-to-maturity financial assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group has the positive intention and ability to hold to maturity. At each balance sheet date subsequent to initial recognition, held-to-maturity financial assets are measured at amortised cost using the effective interest method, less any identified impairment losses. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed on initial recognition. Impairment losses are reversed in subsequent periods when an increase in the investment's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to the restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Financial liabilities and equity instruments

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities. The accounting policies adopted in respect of financial liabilities and equity instruments are set out below.

Financial liabilities

Financial liabilities including trade and other payables are subsequently measured at amortised cost, using the effective interest rate method.

Equity instruments

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

Revenue recognition

Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Dividend income from investments is recognised when the shareholders' rights to receive payment have been established.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment

At each balance sheet date, the Group reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment losses are recognised as expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in its functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise, except for exchange differences arising on a monetary item that forms part of the Company's net investment in a foreign operation, in which case, such exchange differences are recognised in equity in the consolidated financial statements. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Company at the rate of exchange prevailing at the balance sheet date, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are classified as equity and transferred to the Group's exchange reserve. Such exchange differences are recognised in the consolidated profit and loss account in the period which the foreign operation is disposed of.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes income statement items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised on differences between the carrying amount of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, except where the Group as a parent is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the assets to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the assets realised. Deferred tax is charged or credited to the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

4. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's major financial instruments include held-to-maturity financial assets, financial assets at fair value through profit and loss, interest and other receivables and cash and bank balances. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The Group manages and monitors these exposures to ensure appropriate measures are implemented in a timely and effective manner.

Market risk

(i) Currency risk

Most of the Group's investments are located in China where the official currency is the Renminbi ("RMB"). The People's Bank of China announced the reform of the RMB exchange rate regime and simultaneously revalued the RMB against the US dollar by approximately 2% in July 2005. Such RMB revaluation has a positive impact on the Group since the Group holds a considerable amount of net assets denominated in the RMB.

The Group currently does not have a foreign currency hedging policy. However, the Group monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

(ii) Interest rate risk

The Group is exposed to cash flow interest rate risk through the impact of rate changes on interest bearing financial assets which are mainly short term bank deposits at market rates. Since the bank deposits are all short term in nature, any future variations in interest rates will not have a significant impact on the results of the Group.

The Group is also exposed to fair value interest rate risk which resulting from the timing difference in the repricing of fixed rate on certain debt securities (see note 17). The Group manages such interest rate exposure through the Investment Manager, which would consider interest rate level and outlook as well as potential impact on the Group's financial position arising from volatility, and formulating a cash management policy, which sets out certain investment guidelines to limit the risks on investing such financial assets. In addition, the Group has intention and ability to hold such financial assets to maturity. Hence, the Group considers that there is no significant impact on the financial position of the Group arising from the volatility of interest rates.

4. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Market risk (continued)

(iii) Other price risk

The Group is exposed to equity security price risk through its investments in equity securities designated as fair value through profit and loss. The management manages this exposure by maintaining a portfolio of investments with different risk profiles.

Credit risk

The Group's financial assets include debt and equity investments, interest and other receivables and cash and bank balances.

The Group's maximum exposure to credit risk in the event of the counterparties failure to perform their obligations at the balance sheet date in relation to each class of recognised financial assets is the carrying amount of those assets stated in the balance sheet.

Although the bank balances are concentrated on certain counterparties, the credit risk on liquid funds is limited because the counterparties are banks with credit ratings assigned by international credit rating agencies.

5. TURNOVER

Turnover represents the amounts received and receivable on investments during the year as follows:

	THE GROUP	
	2005	2004
	US$	US$
Interest income	**810,203**	646,252
Dividend income from financial assets at fair value through profit and loss	**2,308,446**	–
Dividend income from listed investments in securities	**–**	146,110
Dividend income from unlisted investments in securities	**–**	1,877,981
	3,118,649	2,670,343

6. FINANCE COSTS

	THE GROUP	
	2005	2004
	US$	US$
Interest on bank loans wholly repayable within five years	**–**	74,023

7. SEGMENTAL INFORMATION

During the year, the Group was principally involved in investing in companies with significant business involvement in the PRC. Accordingly, no analysis of segmental information by principal activity is presented. The Group's turnover, contribution to operating profit, assets and liabilities for the year ended 31 December 2005, analysed by geographical locations of the investee companies, were as follows:

For the year ended 31 December 2005

	Hong Kong US$	The PRC US$	Others US$	Consolidated US$
TURNOVER				
Group turnover	**346,427**	**2,598,890**	**173,332**	**3,118,649**
RESULT				
Segment result	**300,857**	**12,883,834**	**173,332**	**13,358,023**
Other income	**–**	**–**	**976,529**	**976,529**
Unallocated corporate expenses	**–**	**–**	**(3,182,117)**	**(3,182,117)**
Share of results of associates	**–**	**(1,301,764)**	**–**	**(1,301,764)**
Profit before taxation	**300,857**	**11,582,070**	**(2,032,256)**	**9,850,671**
Taxation	**328**	**(2,020,973)**	**–**	**(2,020,645)**
Profit for the year	**301,185**	**9,561,097**	**(2,032,256)**	**7,830,026**
BALANCE SHEET				
At 31 December 2005				
ASSETS				
Segment assets	**2,879,080**	**14,518,439**	**37,835**	**17,435,354**
Interests in associates	**–**	**16,062,662**	**–**	**16,062,662**
Financial assets at fair value through profit and loss	**3,307,529**	**113,944,732**	**1,011,307**	**118,263,568**
Other investments in financial assets	**3,000,000**	**–**	**2,698,157**	**5,698,157**
Consolidated total assets	**9,186,609**	**144,525,833**	**3,747,299**	**157,459,741**
LIABILITIES				
Segment liabilities	**900,526**	**401,696**	**–**	**1,302,222**
Taxation payable and deferred taxation	**–**	**9,486,557**	**–**	**9,486,557**
	900,526	**9,888,253**	**–**	**10,788,779**

7. SEGMENTAL INFORMATION (continued)

For the year ended 31 December 2004

	Hong Kong US$	The PRC US$	Others US$	Consolidated US$
TURNOVER				
Group turnover	356,499	2,107,769	206,075	2,670,343
RESULT				
Segment result	871,936	2,367,902	206,075	3,445,913
Other income	–	–	13,876	13,876
Unallocated corporate expenses	–	–	(2,951,880)	(2,951,880)
Finance costs	–	(74,023)	–	(74,023)
Share of results of associates	–	785,508	–	785,508
Profit before taxation	871,936	3,079,387	(2,731,929)	1,219,394
Taxation	(3,162)	(113,755)	–	(116,917)
Profit for the year	868,774	2,965,632	(2,731,929)	1,102,477
BALANCE SHEET				
At 31 December 2004				
ASSETS				
Segment assets	23,672,506	10,291,844	39,293	34,003,643
Interests in associates	–	17,909,420	–	17,909,420
Investments in securities	4,075,857	87,759,741	3,666,767	95,502,365
Consolidated total assets	27,748,363	115,961,005	3,706,060	147,415,428
LIABILITIES				
Segment liabilities	920,462	–	–	920,462
Taxation payable and deferred taxation	–	7,464,428	–	7,464,428
	920,462	7,464,428	–	8,384,890

8. PROFIT BEFORE TAXATION

	THE GROUP	
	2005	2004
	US$	US$
Profit before taxation has been arrived at after charging (crediting):		
Auditors' remuneration	**56,861**	52,506
Net foreign exchange gains	**(966,443)**	(13,206)
Investment manager's fee	**2,869,994**	2,622,984
Directors' fees	**34,732**	37,308
Share of tax of associates (included in share of results of associates)	**193,531**	117,253

9. DIRECTORS' EMOLUMENTS

The Directors' fees paid or payable to each of the 17 (2004: 14) Directors were as follows:

	THE GROUP	
	2005	2004
	US$	US$
Executive Directors:		
Dr. FU Yuning	**5,144**	5,148
Dr. HUANG Dazhan	**2,573**	2,573
Mr. CHU Lap Lik, Victor	**2,573**	2,573
Mr. XIE Kuixing	**2,573**	–
Ms. ZHOU Linda L.	**–**	2,573
Mr. TSE Yue Kit	**2,573**	2,573
Ms. KAN Ka Yee, Elizabeth *(Alternate Director)*	**–**	–
	15,436	15,440
Non-executive Directors:		
Mr. WANG Xingdong	**3,859**	3,859
Mr. GONG Jianzhong	**2,573**	2,573
Mr. HIEW Yoon Khong	**–**	5,145
Mr. PHOON Siew Heng	**2,573**	–
Mr. TAN Cheong Hin *(Alternate Director)*	**–**	–
	9,005	11,577
Independent Non-executive Directors:		
Dr. The Hon. David LI Kwok-po	**3,859**	3,859
Mr. KUT Ying Hay	**3,859**	3,859
Dr. POON Kwok Lim, Steven	**2,573**	2,573
Mr. LI Kai Cheong, Samson *(Alternate Director)*	**–**	–
Mr. MOK Hay Hoi *(Alternate Director)*	**–**	–
	10,291	10,291
	34,732	37,308

10. EMPLOYEES' EMOLUMENTS

The five highest paid individuals in the Group in 2005 and 2004 were all Directors of the Company and details of their emoluments are included in note 9 above.

11. TAXATION

The profits tax charge for the year comprises:

	THE GROUP	
	2005	2004
	US$	US$
The company and its subsidiaries		
Current tax:		
Hong Kong	**–**	3,162
Other regions in the PRC	**50,432**	–
	50,432	3,162
Overprovision in prior year		
Hong Kong	**(328)**	–
	50,104	3,162
Deferred taxation *(note 23)*	**1,970,541**	113,755
	2,020,645	116,917

Hong Kong profits tax is calculated at 17.5% (2004: 17.5%) on the estimated assessable profits for the year. Taxation arising in other regions in the PRC is calculated at the rates prevailing in the relevant regions.

11. TAXATION (continued)

The profits tax charge for the year can be reconciled to the profit per the income statement as follows:

	THE GROUP	
	2005	2004
	US$	US$
Profit before taxation	**9,850,671**	1,219,394
Share of results of associates	**1,301,764**	(785,508)
Profit before taxation attributable to the Company and its subsidiaries	**11,152,435**	433,886
Tax at the domestic income tax rate of 15%	**1,672,865**	65,083
Tax effect of expenses not deductible for tax purpose	**359,195**	424,501
Tax effect of income not taxable for tax purpose	**(436,011)**	(417,636)
Tax effect of tax losses/deductible temporary differences not recognised	**556,097**	75,615
Utilisation of tax losses previously not recognised	**(28,102)**	(55,964)
Effect of different tax rates of subsidiaries operating in other regions in the PRC	**(95,108)**	–
Overprovision in prior year	**(328)**	–
Others	**(7,963)**	25,318
Profits tax charge	**2,020,645**	116,917

Note : The domestic tax rate (which is PRC Enterprise Income Tax rate applicable to the Group's subsidiary in the PRC) in the jurisdiction where the investments of the Group is substantially located.

12. DIVIDEND

	2005	2004
	US$	US$
Final dividend proposed – Nil (2004: US0.7 cents) per share	**–**	960,019

The final dividend of 2004 was paid in June 2005.

13. EARNINGS PER SHARE

The calculation of the basic earnings per share is based on the following data:

	THE GROUP	
	2005	2004
Earnings for the purpose of basic earnings per share (US$)	**7,830,026**	1,102,477
Number of ordinary shares for the purpose of basic earnings per shares	**137,145,600**	137,145,600

14. INVESTMENTS IN SUBSIDIARIES

	THE COMPANY	
	2005	2004
	US$	US$
Unlisted shares, at cost	**10,000,006**	10,001,645

Particulars of the Company's principal subsidiaries at 31 December 2005 are set out in note 29.

15. INTERESTS IN ASSOCIATES

	THE GROUP	
	2005	2004
	US$	US$
Cost of unlisted investments in associates	**16,508,147**	13,009,117
Amounts due from associates	**7,814,595**	12,304,455
Allowance on amounts due from associates	**(6,545,995)**	(6,486,055)
Share of post-acquisition results, net of dividends received	**(2,265,093)**	(1,064,646)
Share of exchange equalisation	**551,008**	146,549
	16,062,662	17,909,420

During the year ended 31 December 2005, one of the associates capitalised its loan from the Group amounted to US$4,481,448 to cost of investment.

As to the reinvestment of dividend amounting to US$264,715 for an associate in 2003, since there are two of shareholders of the associate which are state-owned enterprises, and their applications for reinvestment of dividends had not been approved by relevant authorities as yet, therefore the associate decided to withdraw the dividend declared for such reinvestment.

15. INTERESTS IN ASSOCIATES (continued)

The amounts due from associates are unsecured, non-interest bearing and have no fixed terms of repayment. In the opinion of the Directors, the Company will not demand for the repayment of the amounts within the twelve months from the balance sheet date. Accordingly, the amounts are shown as non-current.

The Directors consider the carrying amounts of amounts due from associates were approximate to their fair values.

As at 31 December 2005, the Group had investments in the following associates:

Name of company	Place of incorporation/ registration and operation	Class of share held	Principal activities	Proportion of nominal value of issued capital/ registered capital held by the Group
Daily On Property Limited	HK/PRC	Ordinary	Property development	22%
Hansen Enterprises Limited	British Virgin Islands ("BVI")/PRC	Ordinary	Property investment	35%
Zhaoyuan Jinbao Electronics Company Limited	PRC/PRC	Registered capital	Manufacturing electronics products	30%
Langfang Oriental Education Facilities Development Company Limited	PRC/PRC	Registered capital	Dormitories investment	25%
Chenzhou Heshang Environmental Protection Company Limited	PRC/PRC	Registered capital	Landfill operation	30%

15. INTERESTS IN ASSOCIATES (continued)

The summarised financial information in respect of the Group's associates is set out below:

	2005 **US$**	2004 US$
Total assets	**239,342,547**	200,200,569
Total liabilities	**(187,939,335)**	(164,114,845)
Net assets	**51,403,212**	36,085,724
Group's share of net assets of associates	**16,062,662**	17,909,420
Turnover	**99,735,831**	79,734,944
(Loss) profit for the year	**(3,293,879)**	1,101,221
Group's share of results of associates for the year	**(1,301,764)**	785,508

The Group has discontinued recognition of its share of losses of certain associates. The amounts of unrecognised share of those associates, extracted from the relevant audited/management accounts of associates, both for the year and cumulatively, are as follows:

	2005 **US$**	2004 US$
Unrecognised share of (gain) losses for the year	**(75,409)**	401,227
Accumulated unrecognised share of losses of associates	**3,970,530**	4,045,939

16. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT AND LOSS

	THE GROUP 2005 US$	THE COMPANY 2005 US$
Equity securities:		
– listed in Hong Kong *(note a)*	**3,307,529**	**–**
– listed elsewhere *(note a)*	**104,762**	**–**
– non-circulating and unlisted *(note b)*	**64,957,430**	**–**
– unlisted *(note c)*	**48,924,847**	**14,958,416**
	117,294,568	**14,958,416**
Debt securities:		
– unlisted *(note d)*	**969,000**	**–**
Total	**118,263,568**	**14,958,416**

The above financial assets are designated by the Group as financial assets at fair value through profit and loss at initial recognition.

Notes:

(a) The fair values of the above listed securities are determined based on the quoted market bid prices available on the relevant exchanges.

(b) The non-circulating and unlisted equity securities represented the Group's 1.18% interest held in China Merchants Bank Company Limited ("CMBC"). Its fair value is estimated by reference to the market prices of CMBC's circulating shares after adjusting the marketability factor due to its non-circulation.

(c) The fair values are determined by reference to recent transaction prices.

(d) The unlisted debt securities carry floating interest rate and will mature on 20 August 2013 unless early redeemed. The fair value is determined by reference to the market value.

Particulars of the Group's unlisted investment portfolio which exceed 10% of the assets of the Group at 31 December 2005 disclosed pursuant to Section 129(2) of the Companies Ordinance are as follows:

Name of company	Place of registration	Class of share capital	Percentage of equity held by the Group
China Merchants Bank Company, Limited	PRC	Equity	1.18%
Industrial Bank Company, Limited	PRC	Equity	2.10%
China Credit Trust Company, Limited	PRC	Equity	6.82%

17. OTHER INVESTMENTS IN FINANCIAL ASSETS

	THE GROUP 2005 US$
Listed debt securities – held-to-maturity financial assets *(note a)*	**2,698,157**
Loans and receivables – long term callable deposits *(note b)*	**3,000,000**
Total	**5,698,157**

Notes:

(a) The maturity of the debt securities which carry effective interest rates ranged from 4.29% to 6.19% falls into:

	THE GROUP 2005 US$
Over one year but less than five years	**998,566**
Over five years	**1,699,591**
	2,698,157

(b) The long term callable deposits carry fixed interest rates and maturity dates at 9 December 2008 and 16 March 2009, respectively. The fair value of the long term callable deposits at 31 December 2005 was approximate to the corresponding carrying amount.

18. INVESTMENTS IN SECURITIES

	THE GROUP		
	2004		
	Held to maturity securities	Other investments	Total
	US$	US$	US$
Equity securities:			
Listed	–	1,232,216	1,232,216
Unlisted	–	87,603,382	87,603,382
	–	88,835,598	88,835,598
Debt securities:			
Listed	2,697,767	–	2,697,767
Unlisted	3,000,000	969,000	3,969,000
	5,697,767	969,000	6,666,767
Total:			
Listed			
Hong Kong	–	1,075,857	1,075,857
Elsewhere	2,697,767	156,359	2,854,126
Unlisted	3,000,000	88,572,382	91,572,382
	5,697,767	89,804,598	95,502,365
Market value of listed securities	2,749,415	1,232,216	3,981,631

19. AMOUNTS DUE FROM SUBSIDIARIES

	THE COMPANY	
	2005	2004
	US$	US$
Amounts due from subsidiaries	**77,692,030**	72,449,923
Less: Allowance on amounts due from subsidiaries	**(10,929,392)**	(9,091,357)
	66,762,638	63,358,566

The amounts due from subsidiaries are unsecured, non-interest bearing and repayable on demand.

The Directors consider the carrying amounts of amounts due from subsidiaries were approximate to their fair values.

20. TRADE AND OTHER RECEIVABLES

	THE GROUP	
	2005	2004
	US$	US$
Trade receivables	**–**	3,898
Interest receivable	**58,363**	98,018
Other receivables	**22,780**	22,001
	81,143	123,917

	THE COMPANY	
	2005	2004
	US$	US$
Interest receivable	**2,391**	42,212
Other receivables	**19,446**	18,749
	21,837	60,961

The fair value of the Group's and the Company's interest and other receivables at 31 December 2005 was approximate to the corresponding carrying amount.

21. CASH AND BANK BALANCES

THE GROUP AND THE COMPANY

Bank balances comprised short-term bank deposits at prevailing market interest rates. The fair value of these assets at 31 December 2005 was approximate to the corresponding carrying amount.

22. TRADE AND OTHER PAYABLES

THE GROUP AND THE COMPANY

Trade payables mainly comprise of amount due to the Investment Manager.

The fair value of trade and other payables at 31 December 2005 was approximate to the corresponding carrying amount.

23. DEFERRED TAXATION

THE GROUP

The Group's deferred tax liability relates to the taxation on capital gains for certain investments in securities in the PRC. The following is the deferred tax liability recognised by the Group and movements thereon during the current and prior years:

	THE GROUP	
	2005	2004
	US$	US$
Balance at 1 January	**7,450,539**	7,336,784
Charge to income statement for the year	**1,970,541**	113,755
Balance at 31 December	**9,421,080**	7,450,539

At the balance sheet date, the Group had deductible temporary differences and unused tax losses available for offsetting against future taxable profits of US$6,134,480 (2004: US$2,715,979) and US$3,016,108 (2004: US$2,727,296) respectively. The losses can be carried forward indefinitely.

No deferred tax asset has been recognised in relation to such deductible temporary differences and tax losses due to the unpredictability of future relevant taxable profit against which the deductible temporary differences and tax losses can be utilised.

THE COMPANY

The Company had no significant deferred taxation at both balance sheet dates.

24. SHARE CAPITAL

	2005 & 2004
	US$
Authorised:	
150,000,000 ordinary shares of US$0.10 each	15,000,000
Issued and fully paid:	
137,145,600 ordinary shares of US$0.10 each	13,714,560

25. RESERVES

	THE COMPANY		
	Share premium	Retained profits (loss)	Total
	US$	US$	US$
Balance at 1 January 2004	81,525,984	1,230,533	82,756,517
Profit for the year	–	871,971	871,971
Final dividend paid for 2003	–	(1,097,165)	(1,097,165)
Balance at 1 January 2005	81,525,984	1,005,339	82,531,323
Loss for the year	–	(1,599,277)	(1,599,277)
Final dividend paid for 2004	–	(960,019)	(960,019)
Balance at 31 December 2005	81,525,984	(1,553,957)	79,972,027

26. NET ASSET VALUE PER SHARE

The calculation of the net asset value per share is based on the net assets of US$146,670,962 (2004: US$139,030,538) and 137,145,600 ordinary shares (2004: 137,145,600 ordinary shares) of US$0.10 each in issue.

27. CAPITAL COMMITMENTS

At 31 December 2005, the Group had the following commitments:

	THE GROUP	
	2005	2004
	US$	US$
Capital expenditure contracted but not provided for in the financial statements in respect of:		
– unlisted investment in securities	**–**	15,312,613

The Company had no significant capital commitments at both balance sheet dates.

28. RELATED PARTY TRANSACTION

The Company has appointed China Merchants China Investment Management Limited as the Investment Manager for both listed and unlisted investments. Certain Directors of the Company are also Directors and/or shareholders of the Investment Manager.

During the year, management fees totalling US$2,869,994 (2004: US$2,622,984) were paid or payable to the Investment Manager, which is calculated based on a fixed percentage on the value of the Group's assets as stipulated in the Agreement. The amount due to the Investment Manager included in trade and other payables at 31 December 2005 was US$789,099 (2004: US$646,115).

Amount due to the Investment Manager is unsecured, interest free and repayable on demand. The fair value of amount due to the Investment Manager at the balance sheet date was approximate to the corresponding carrying amount.

Details of compensation of the Directors are set out in note 9 to the financial statements.

29. PARTICULARS OF PRINCIPAL SUBSIDIARIES

Particulars of all subsidiaries at 31 December 2005, which are all wholly-owned and directly held by the Company, are as follows:

Name	Place of incorporation/ registration	Principal activities	Particulars of issued share capital
CMCDI Zhaoyuan Limited	BVI	Investment holding	1 ordinary share of US$1 each (Limited liability company)
China Merchants Industry Development (Shenzhen) Limited	PRC	Investment holding	Paid up capital of US$10,000,000 (Wholly owned foreign enterprise)
Everich Dynamic Investments Limited	BVI	Investment holding	1 ordinary share of US$1 each (Limited liability company)
Ryan Pacific Limited	BVI	Investment holding	1 ordinary share of US$1 each (Limited liability company)

29. PARTICULARS OF PRINCIPAL SUBSIDIARIES (continued)

Name	Place of incorporation/ registration	Principal activities	Particulars of issued share capital
Star Group Limited	HK	Investment holding	2 ordinary shares of HK$1 each (Limited liability company)
Sinovest Limited	BVI	Investment holding	1 ordinary share of US$1 each (Limited liability company)
Wheaton International Limited	BVI	Investment holding	1 ordinary share of US$1 each (Limited liability company)
Wisetech Limited	BVI	Dormant	1 ordinary share of US$1 each (Limited liability company)

None of the subsidiaries had any debt securities subsisting at 31 December 2005 or at any time during the year.