

000-01/30

Company Registration No. FC024762 (England and Wales)

GUINNESS ATKINSON ASSET MANAGEMENT LLC
DIRECTORS' REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2005



GUINNESS ATKINSON ASSET MANAGEMENT LLC

COMPANY INFORMATION

Directors	J Atkinson T Guinness E Harriss
Secretary	J Atkinson
Company number	FC024762
Branch number	BR007242
Registered office	Suite 750 21550 Oxnard Street Woodland Hills U.S.A. CA91367
Auditors	FW Stephens 10 Charterhouse Square London EC1M 6LQ

GUINNESS ATKINSON ASSET MANAGEMENT LLC

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GUINNESS ATKINSON ASSET MANAGEMENT LLC

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2005

The directors who are also referred to as partners present their report and financial statements for the year ended 31 December 2005.

Principal activities and review of the business

The company's principal activity is investment management with a specialisation in investing in (a) companies active in asia, (b) companies involved in innovation, and (c) companies involved in energy.

The company during 2005 had one client, Guinness Atkinson Funds Inc an SEC registered no load mutual fund series. It managed four funds for this client - the GA China & Hong Kong Fund (ICHKX), the GA Asia Focus Fund (IASCX), the GA Global Innovators Fund (IWIRX), and the GA Global Energy Fund (GAGEX). Funds under management since the company started business in April 2003 have grown as set out in the following table:

Fund	25/04/2003 \$m	31/12/2003 \$m	31/12/2004 \$m	31/12/2005 \$m
China & Hong Kong - Mutual Fund	62.30	116.50	112.30	111.10
Asia Focus - Mutual Fund	14.80	35.90	30.70	36.50
Global Innovators - Mutual Fund	44.90	49.90	42.20	36.40
Global Energy - Mutual Fund	-	-	1.60	99.20
Total	122.00	202.40	186.90	283.30

It can be seen that in 2005 the size of these funds increased by 51.6% in dollars (70% in sterling) from \$186.9m (£97.0m) to \$283.3m (£165.0m).

A major contributor to this growth was the GA Global Energy Fund, launched 30th June 2004, which ended its first year on 30th June 2005 as one of the best mutual funds in performance terms over six and twelve months not only in the Energy and Resources sectors but also in the whole US Mutual Fund universe. This combined with increased investor appetite for exposure to energy stocks generally led to strong flows into the fund in the third quarter of 2005.

The two GA Asian funds and the GA Global Innovators Fund were in aggregate little changed over the year mainly reflecting little investor appetite as their markets, especially Hong Kong and the US, marked time.

Performance in 2005 against indices was as set out in the following table:

Fund	\$ Return 2005	Benchmark return	Benchmark
China & Hong Kong - Mutual Fund	6.61	8.69	Hang Seng
Asia Focus - Mutual Fund	20.83	21.13	MSCI FE Ex Japan
Global Innovators - Mutual Fund	11.82	4.91	S&P500
Global Energy - Mutual Fund	63.99	26.20	MSCI World Energy

GUINNESS ATKINSON ASSET MANAGEMENT LLC

DIRECTORS' REPORT (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2005

In asia the Asia Focus performance was very much in line with the benchmark; the China & Hong Kong Fund underperformed the Hang Seng principally due to its greater small company exposure whose performances lagged; the Global Innovators Fund outperformed as did the Global Energy Fund.

A result of the increase in total funds under management was an increase in management fees to \$2.25m (\$1.89m(2004)) up 19% and a resultant 23% increase in profit after tax to \$286,567 (2004: \$233,179).

The year saw a growth in headcount with the recruitment of three analysts and a finance officer. Also in London the Company moved to new offices in Queen Anne's Gate in November.

After taking advice on the best corporate structure for the company a decision was taken to convert the Company from a Delaware Limited Liability Company to a Delaware Corporation. This occurred on the 1st January 2006 and as part of the conversion all profits were distributed to the founder shareholders just before the year end and \$175,000 reinvested as convertible preference stock immediately after the year end taking the capital of the new Delaware corporation from \$325,000 to \$500,000. This latter transaction is not reflected in the year end balance sheet.

Results and distributions

The results for the year are set out on page 4.

The directors approved the distribution to the partners of all of this year's profits and previous years' accumulated reserves.

Directors

The following directors have held office since 1 January 2005:

J Atkinson
T Guinness
E Harriss

Directors' interests

The directors' interests in the shares of the company were as stated below:

	Ordinary shares of \$1 each	
	31 December 2005	1 January 2005
J Atkinson	162,500	162,500
T Guinness	162,500	162,500
E Harriss	-	-

E Harriss has options over 36,100 shares (2004: 36,100) in the company.

Auditors

FW Stephens are the company's auditors for the purposes of producing these accounts, which are required by the Financial Services Authority.

GUINNESS ATKINSON ASSET MANAGEMENT LLC

DIRECTORS' REPORT (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2005

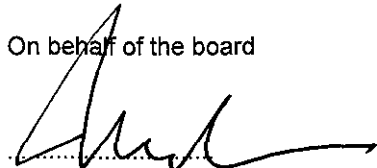
Directors' responsibilities

The directors are responsible for the preparation of the financial statements for each financial year which give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

On behalf of the board



T Guinness

Director

27th April 2006

GUINNESS ATKINSON ASSET MANAGEMENT LLC

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 2005

	Notes	2005 £	2005 \$	2004 £	2004 \$
Turnover	2	1,310,273	2,249,739	980,889	1,889,779
Cost of sales		(707,757)	(1,215,219)	(498,527)	(960,462)
Gross profit		602,516	1,034,520	482,362	929,317
Administrative expenses		(423,047)	(726,372)	(355,119)	(684,172)
Operating profit	3	179,469	308,148	127,243	245,145
Other interest receivable and similar income		5,143	8,831	3,579	6,895
Profit on ordinary activities before taxation		184,612	316,979	130,822	252,040
Tax on profit on ordinary activities	4	(17,712)	(30,412)	(9,791)	(18,861)
Profit on ordinary activities after taxation		166,900	286,567	121,031	233,179
Distributions	5	(391,396)	(672,027)	-	-
Retained (deficit)/surplus after distributions	11	(224,496)	(385,460)	121,031	233,179

The profit and loss account has been prepared on the basis that all operations are continuing operations.

There are no recognised gains and losses other than those passing through the profit and loss account.

GUINNESS ATKINSON ASSET MANAGEMENT LLC

BALANCE SHEET AS AT 31 DECEMBER 2005

	Notes	2005 £	2005 \$	2004 £	2004 \$
Fixed assets					
Tangible assets	6	21,772	37,383	12,642	24,356
Current assets					
Debtors	7	202,892	348,366	100,535	193,691
Investments	8	6,413	11,011	81,238	156,513
Cash at bank and in hand		167,131	286,964	245,012	472,040
		<u>376,436</u>	<u>646,341</u>	<u>426,785</u>	<u>822,244</u>
Creditors: amounts falling due within one year	9	<u>(208,924)</u>	<u>(358,724)</u>	<u>(129,627)</u>	<u>(249,739)</u>
Net current assets		<u>167,512</u>	<u>287,617</u>	<u>297,158</u>	<u>572,505</u>
Total assets less current liabilities		<u>189,284</u>	<u>325,000</u>	<u>309,800</u>	<u>596,861</u>
Capital and reserves					
Called up share capital	10	189,284	325,000	168,691	325,000
Other reserves	11	-	-	(83,387)	(160,653)
Profit and loss account	11	-	-	224,496	432,514
Shareholders' funds - equity interests	12	<u>189,284</u>	<u>325,000</u>	<u>309,800</u>	<u>596,861</u>

The financial statements were approved by the Board on 27/4/06


T Guinness
Director

GUINNESS ATKINSON ASSET MANAGEMENT LLC

CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2005

		2005 £	2005 \$	2004 £	2004 \$
Net cash inflow from operating activities	1	175,816	301,876	202,545	390,221
Returns on investments and servicing of finance					
Interest received		5,143	8,831	3,579	6,895
Taxation		(7,946)	(13,643)	(7,675)	(14,785)
Capital expenditure					
Payments to acquire tangible assets		(17,710)	(30,408)	(13,130)	(25,296)
Distributions		(391,396)	(672,027)	-	-
Net cash outflow before management of liquid resources and financing		(236,093)	(405,371)	185,319	357,035
Management of liquid resources					
Current asset investments	2	74,825	128,475	(81,238)	(156,513)
Partners' drawings/repayments		83,387	143,175	(89,553)	(172,533)
Decrease in cash in the year	2	(77,881)	(133,721)	14,528	27,989

GUINNESS ATKINSON ASSET MANAGEMENT LLC

NOTES TO THE CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2005

1	Reconciliation of operating profit to net cash inflow from operating activities	2005	2005	2004	2004
		£	\$	£	\$
	Operating profit	179,469	308,147	127,243	245,144
	Depreciation of tangible assets	9,223	15,836	4,545	8,756
	(Increase)/decrease in debtors	(102,357)	(175,747)	39,607	76,307
	Increase in creditors within one year	69,531	119,386	38,284	73,758
	Exchange rate movement on opening reserves	19,950	34,254	(7,134)	(13,744)
	Net cash inflow from operating activities	175,816	301,876	202,545	390,221
2	Analysis of net funds (£)	1 January 2005	Cash flow	Other non-cash changes	31 December 2005
		£	£	£	£
	Net cash:				
	Cash at bank and in hand	245,012	(77,881)	-	167,131
	Liquid resources:				
	Current asset investments	81,238	(74,825)	-	6,413
	Net funds	326,250	(152,706)	-	173,544
2	Analysis of net funds (\$)	1 January 2005	Cash flow	Other non-cash changes	31 December 2005
		\$	\$	\$	\$
	Net cash:				
	Cash at bank and in hand	420,686	(133,721)	-	286,965
	Liquid resources:				
	Current asset investments	139,486	(128,475)	-	11,011
	Net funds	560,172	(262,196)	-	297,976

GUINNESS ATKINSON ASSET MANAGEMENT LLC

NOTES TO THE CASH FLOW STATEMENT (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2005

3	Reconciliation of net cash flow to movement in net funds	2005 £	2005 \$	2004 £	2004 \$
	Decrease in cash in the year	(77,881)	(133,721)	14,528	27,990
	Cash inflow from decrease in liquid resources	(74,825)	(128,475)	81,238	156,513
	Movement in net funds in the year	(152,706)	(262,196)	95,766	184,503
	Opening net funds	326,250	560,172	230,484	444,050
	Closing net funds	173,544	297,976	326,250	628,553

GUINNESS ATKINSON ASSET MANAGEMENT LLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005

1 Accounting policies

1.1 Accounting convention

The financial statements are prepared under the historical cost convention. The results of the US branch are translated at the exchange rate ruling at the balance sheet date and included within the financial statements accordingly.

1.2 Turnover

Turnover represents amounts receivable for goods and services net of VAT and trade discounts.

1.3 Tangible fixed assets and depreciation

Tangible fixed assets are stated at cost less depreciation. Depreciation is provided at rates calculated to write off the cost less estimated residual value of each asset over its expected useful life, as follows:

Computers and office equipment	over 3 years
Fixtures, fittings & equipment	over 3 years

1.4 Investments

Current asset investments are stated at the lower of cost and net realisable value.

1.5 Deferred taxation

Deferred tax is provided in full in respect of taxation deferred by timing differences between the treatment of certain items for taxation and accounting purposes. The deferred tax balance has not been discounted.

1.6 Foreign currency translation

Monetary assets and liabilities denominated in foreign currencies are translated into sterling at the rates of exchange ruling at the balance sheet date. Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. All differences are taken to profit and loss account.

2 Turnover

The total turnover of the company for the year has been derived from its principal activity undertaken within the United Kingdom and the United States of America.

3 Operating profit	2005 £	2005 \$	2004 £	2004 \$
Operating profit is stated after charging:				
Depreciation of tangible assets	9,223	15,836	4,545	8,756
Loss on foreign exchange transactions	-	-	1,129	2,175
Auditors' remuneration	4,022	6,906	4,500	8,670
Remuneration of auditors for non-audit work	1,500	2,576	888	1,711
and after crediting:				
Profit on foreign exchange transactions	<u>(11,877)</u>	<u>(20,393)</u>	<u>-</u>	<u>-</u>

GUINNESS ATKINSON ASSET MANAGEMENT LLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2005

4	Taxation	2005 £	2005 \$	2004 £	2004 \$
	Domestic current year tax				
	U.K. corporation tax	17,712	30,412	9,791	18,861
	Current tax charge	<u>17,712</u>	<u>30,412</u>	<u>9,791</u>	<u>18,861</u>
	Factors affecting the tax charge for the year				
	Profit on ordinary activities before taxation	<u>184,612</u>	<u>316,979</u>	<u>130,822</u>	<u>252,040</u>
	Profit on ordinary activities before taxation at 19%	<u>35,076</u>	<u>60,225</u>	<u>24,856</u>	<u>47,888</u>
	Effects of:				
	Non deductible expenses	-	-	768	1,480
	Capital allowances	(429)	(737)	(111)	(215)
	US tax adjustments	(19,951)	(34,255)	(19,017)	(36,639)
	US California taxes	4,077	7,000	4,047	7,797
	Other tax adjustments	(1,061)	(1,821)	(752)	(1,450)
		<u>(17,364)</u>	<u>(29,813)</u>	<u>(15,065)</u>	<u>(29,027)</u>
	Current tax charge	<u>17,712</u>	<u>30,412</u>	<u>9,791</u>	<u>18,861</u>
5	Distributions	2005 £	2005 \$	2004 £	2004 \$
	Profits distributed	<u>391,396</u>	<u>672,027</u>	<u>-</u>	<u>-</u>

GUINNESS ATKINSON ASSET MANAGEMENT LLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2005

6 Tangible fixed assets

	Computers & office equipment £	Fixtures, fittings & equipment £	Total £	Computers & office equipment \$	Fixtures, fittings & equipment \$	Total \$
Cost						
At 1 January 2005	15,416	3,844	19,260	26,469	6,600	33,069
Additions	17,710	-	17,710	30,408	-	30,408
At 31 December 2005	33,126	3,844	36,970	56,877	6,600	63,477
Depreciation						
At 1 January 2005	5,025	950	5,975	8,628	1,631	10,259
Charge for the year	8,013	1,210	9,223	13,758	2,078	15,836
At 31 December 2005	13,038	2,160	15,198	22,386	3,709	26,095
Net book value						
At 31 December 2005	20,088	1,684	21,772	34,491	2,891	37,382
At 31 December 2004	9,991	2,651	12,642	17,841	4,969	22,810

7 Debtors	2005 £	2005 \$	2004 £	2004 \$
Trade debtors	165,233	283,705	50,878	98,023
Other debtors	9,116	15,653	2,124	4,091
Prepayments and accrued income	28,543	49,008	47,533	91,577
	202,892	348,366	100,535	193,691

8 Current asset investments	2005 £	2005 \$	2004 £	2004 \$
Other unlisted investments	6,413	11,011	81,238	156,513

GUINNESS ATKINSON ASSET MANAGEMENT LLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2005

9	Creditors: amounts falling due within one year	2005 £	2005 \$	2004 £	2004 \$
	Trade creditors	90,042	154,602	39,651	76,392
	Corporation tax	19,040	32,692	9,274	17,867
	Other taxes and social security costs	9,241	15,867	9,943	19,156
	Other creditors	35,034	60,153	-	-
	Accruals and deferred income	55,567	95,410	70,759	136,324
		<u>208,924</u>	<u>358,724</u>	<u>129,627</u>	<u>249,739</u>
10	Share capital	2005 & 2004 No	2005 & 2004 \$	2005 £	2004 £
	Authorised				
	Ordinary shares of \$1 each	325,000	325,000	<u>189,284</u>	<u>168,691</u>
	Allotted, called up and fully paid				
	Ordinary shares of \$1 each	325,000	325,000	<u>189,284</u>	<u>168,691</u>

On the 1st January 2006 the company was converted to a corporation. \$175,000 convertible preference stock was issued on this date, increasing the share capital of the company to \$500,000.

11 Statement of movements on profit and loss account

	Profit and loss account £	Profit and loss account \$
Balance at 1 January 2005	224,496	385,460
Retained deficit after distributions	<u>(224,496)</u>	<u>(385,460)</u>
Balance at 31 December 2005	<u>-</u>	<u>-</u>

GUINNESS ATKINSON ASSET MANAGEMENT LLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2005

12 Reconciliation of movements in shareholders' funds	2005 £	2005 \$	2004 £	2004 \$
Profit for the financial year	166,900	286,567	121,031	233,178
Distributions	(391,396)	(672,026)	-	-
	(224,496)	(385,459)	121,031	233,178
Movements on other reserves	83,387	143,175	(83,387)	(160,653)
Foreign exchange movement on opening shareholders' funds	20,593	(29,577)	-	-
Net (depletion in)/addition to shareholders' funds	(120,516)	(271,861)	37,644	72,525
Opening shareholders' funds	309,800	596,861	272,156	524,336
Closing shareholders' funds	189,284	325,000	309,800	596,861

13 Employees

Number of employees

The average monthly number of employees
(including directors) during the year was:

	2005 Number	2004 Number
Fund management	6	3

Employment costs

	£	\$	£	\$
Wages and salaries	514,108	882,723	378,760	729,719
Social security costs	43,801	75,206	27,734	53,432
US employee costs	-	-	4,434	8,543
	557,909	957,929	410,928	791,694