Operations Review

MARKET REVIEW

China Economy

Growth of China's major economic indicators in 2002 compared with the first half and the year before were as follows:

Growth (year-on-year %)	2001	1H 2002	2002
Gross domestic product (GDP)	7.3	7.8	8.0
Value added industrial output	8.9	11.7	10.2
Retail sales	10.1	8.6	8.8
Consumer price index	0.7	-0.8	-0.8
Fixed asset investments	12.1	24.4	16.1
Actual foreign direct investments	14.9	18.7	12.5
Exports	6.8	14.1	22.3
Imports	8.2	10.4	21.2
Trade surplus *(US$ bn)*	22.6	13.6	30.4
Foreign exchange reserves *(US$ bn)*	212.2	242.8	286.4

Sources: Published information

As can be seen, China's economic performance in 2002 fared better than market expectations. During the year, its GDP grew by 8% to exceed RMB10.2 trillion, and for 2003, GDP growth is likely to remain at 7%.

In 2002, China's exports were US$325.6 billion, up 22.3% from a year earlier, while imports increased 21.2% to US$295.2 billion. As a result, China's trade surplus reached US$30.4 billion, up 34.5% from a year earlier. China's products were able to penetrate the U.S. and European markets despite slumping global demand, attributable mainly to their price competitiveness and improved product quality. China's export growth is expected to remain strong for 2003 albeit the growth pace may moderate slightly as a result of growing trade protectionism, anti-dumping allegation, and the high base effect.

China's value added industrial output (VAIO) rose 10.2% year-on-year in 2002, the highest growth rate since 1998. The sharp increase of VAIO in 2002 was attributable to higher government spending on infrastructure and increased relocation of production facilities to China by more foreign companies. VAIO growth will remain strong in 2003, as China emerges to become the world's manufacturing base.

OPERATIONS REVIEW *(Cont'd)*

MARKET REVIEW *(Cont'd)*

China Economy *(Cont'd)*

Fixed asset investments (FAI) in China rose 16.1% during the year, and much spending was by the government which aims to create jobs for the unemployed, fuel overall economic growth and build the infrastructure needed for future growth. Property investment, a major growth contributor to FAI in recent years, is likely to be affected by the government's measures to prevent the formation of a bubble resulting from over-supply in 2003. Nevertheless, FAI is still expected to grow at double digits in 2003.

Actual foreign direct investments (FDI) in China rose at an annual 12.5% to a record US$52.7 billion in 2002 as foreign companies are more and more drawn to China's lower costs to make quality goods and attracted by its vast consumption market. It is envisaged that high FDI growth will continue in 2003 when more sectors are opening up to allow foreign investments to have bigger stakes in those sectors.

China's monetary policy in 2003 will emphasize on creating employment by stimulating economic growth. This will come about by streamlining governmental structure, building up domestic competitiveness through mergers and acquisitions, and more aggressive restructuring of the financial market and banking industry. People's Bank of China, the de facto Central Bank, is expected to maintain its stance to stimulate the targeted 16% M1 and M2 growth in 2003 versus the 13-14% target in the past. Besides, liberalization of interest rate will be expanded to address the credit crunch in rural areas and the private sector. In addition, China allows private and foreign capital to have equity participation in small and medium-sized banks to promote healthy industry growth and elevation of operation quality. The move is seen as China's hope to not only solve the capital adequacy ratio problem by having capital participation from the private sector, but also to accelerate the transformation of small banks into more professionally managed commercial entities. People's Bank of China will also steadfastly maintain the stability of China's currency and disregard increasing calls to appreciate the Renminbi by countries whose trade suffer from eroding parity of their currency.

On July 4, China entered into a joint venture agreement with a consortium of world class oil companies to build a 4,000 kilometer pipeline to transport natural gas from the western desert of Xinjiang Province, traversing eight regions and provinces and crossing two major rivers before ending in coastal Shanghai, at a cost of US$8.5 billion. Under the agreement, Royal Dutch/Shell Group, Exxon Mobil Corp, and Russia's Gazprom will each have 15% shareholding in the company. PetroChina Co., China's largest oil and gas company, will hold 50%, while Sinopec Corporation, the largest refiner, will own 5%. The agreement charts a new milestone by ending an era of which Beijing had guarded its oil and gas fields as crown jewels of its economy, and kept them off limits to foreign investors on ground of national security. Since one third of China's annual oil consumption is imported, the pipeline will reduce its dependence on foreign oil producers in the long run.

OPERATIONS REVIEW *(Cont'd)*

MARKET REVIEW *(Cont'd)*

China Economy *(Cont'd)*

China eased limit on foreign equity participation in domestic airlines and airports effective August 1, 2002 to attract more foreign investments into the sector. The new rule raised the ceiling of foreign ownership in airlines from 35% to about 49.9%. As for equity participation in Chinese airports, the previous 49% ceiling for foreign participation would be allowed provided always that Chinese shareholders shall maintain a controlling interest. The move is expected to further facilitate mainland aviation companies and airports seeking strategic partnership and overseas listings.

In October 2002, the Civil Aviation Administration of China announced the final restructured organization of the industry that has taken 18 months of negotiations between the government and mainland carriers to reach. The restructuring resulted in merging 9 airlines into three holding companies. China National Aviation Holdings includes Air China, China Airways and Southwest Airlines. China Eastern Air Holdings comprises of China Eastern Airlines, which is dually listed in Shanghai and Hong Kong, Yunnan Airlines and China Northwest Airlines. China Southern Air Holdings, led by China Southern Airlines, include China Northern and Xinjiang Airlines. The three main airline groups will have a fleet of 419 aircrafts and combined assets of RMB158 billion, accounting for 80% of the industry's assets.

In October, China's State Council approved reform in the power industry to end State Power Corporation's virtual monopoly by creating five power generation and two power transmission holding companies to encourage competition in the world's second-largest power market after the U.S.. The restructure was formally launched after a ceremony held at the Great Hall of the People on December 29, 2002. The move also gave birth to a new regulatory committee to oversee the power industry. The five power generating companies include Huaneng Holdings, Datang Holdings, Shangdong International Power Holdings, Guodian Power Holdings, and China Power International Holdings. Each of those five companies will hold stakes in domestically or abroad listed power firms, paving way for large-scale asset injections into these listed vehicles. State Power Grid Corporation will manage networks in the north, northeast, northwest, east and central parts of China while Southern Power Grid Corporation will operate grids in five southern provinces. Although few concrete details were given as to how the reform will boost competition, it is generally perceived that flexibility in electricity pricing will be allowed.

OPERATIONS REVIEW *(Cont'd)*

MARKET REVIEW *(Cont'd)*

Hong Kong Economy

Hong Kong's GDP grew 2.3% in 2002, and is expected to grow slightly faster in 2003. Benefiting from China's surging export growth, Hong Kong's exports rose for the seventh consecutive month in December. On a quarter-on-quarter basis, Hong Kong's exports grew by 2.4% in December, and rose 5.4% for 2002 as a whole. Strong export growth is likely to remain the brightest spot in Hong Kong's economic outlook in 2003.

With unemployment rate above 7% in the second half of 2002, most people in Hong Kong neither feel nor relate much to the benefits of its strong export growth. Stagnant deflation that had persisted in the past four years has forced wages down and intimidated consumer spending, helped only by robust tourists spending, particularly those from mainland China, to reduce an otherwise faster rate of decline in retail sales. As a result, retail sales for 2002 as a whole fell by only 4.1% in value terms, and dropped by 2.6% in volume terms.

The Chinese government relaxed restrictions on its citizens' application for tourist visas. It also greatly increased the number of authorized agents in the mainland, from 4 to 528, to organize and process tourist groups. As a result the number of mainland visitors to Hong Kong stood at 6.83 million in 2002, a 53.4% increase over 2001. Total number of tourists visited Hong Kong in 2002 tallied about 16.57 million, an increase of 20.7% over 2001. The Hong Kong Tourism Board expects the number of tourist arrivals to break the 17.96 million mark in 2003, representing an 8.4% increase over 2002.

Hong Kong's residential property prices fell about 12% in 2002, as government measures to bolster the property market failed to halt the slide. Nevertheless, residential property prices may start to stabilize in the second half of 2003 when the domestic economy gradually recovers. Due to an over-supply of commercial properties, rents for grade A office space were down by about 25% in the central business district for the whole of 2002. Office rents are unlikely to recover in 2003, as supply remains ample.

Hong Kong's fiscal deficit for the nine months ending in December rose to a record high of HK$77.3 billion, when government expenditures are high and revenue from land sales and taxation are kept low by the weak economy. The government announces plans to eliminate the deficit hopefully by 2006/07, among which is the much criticized and controversial handling of the government's efforts to downsize the number of civil service employees by 10% by 2006/07. Despite the increased deficit, Hong Kong ranks fifth in the world in having one of the largest foreign currency reserves, with assets of US$115.6 billion at the end of January 2003.

OPERATIONS REVIEW *(Cont'd)*

LISTED INVESTMENTS REVIEW

Listed Securities Portfolio

As at December 31, 2002

Name of stock	Nature of business	Number of shares held	% held of total issued shares	Cost	Market value	% of net asset value	Dividend received	
					US$	*US$*	*US$*	*Original currency*
APT Satellite	Satellite transponder services	2,877,000	0.6969%	1,246,363	531,220	1.01%	18,443	HK$143,850
Bank of East Asia	Banking & financial services	150,000	0.0104%	331,048	256,770	0.49%	10,385	HK$81,000
Cheung Kong	Property development and investment holding	90,000	0.0039%	945,830	585,667	1.12%	18,462	HK$144,000
China Shipping	Shipping	928,000	0.0716%	208,039	193,958	0.37%	5,606	RMB46,400
China Unicom	Telecommunication services	500,000	0.0040%	582,944	339,796	0.65%	—	—
Hon Hai Precision	PC connector and cable accessories	115,000	0.0056%	591,940	396,894	0.76%	3,614	NT$120,000
Hutchison Whampoa	Conglomerate	128,000	0.0030%	1,261,206	800,944	1.53%	28,391	HK$221,440
HSBC Holdings	Banking & financial services	146,000	0.0016%	1,790,018	1,595,951	3.05%	79,230	—
Sinopec Zhenhai Refining	Oil refining	850,000	0.1174%	208,482	213,623	0.41%	15,827	RMB131,000
Top Glory	Property development and investment holding	8,000,000	0.2991%	746,966	374,417	0.71%	—	—
Total				7,912,836	5,289,240	10.10%		
Other listed securities				1,098,025	558,164	1.06%		
Total investments in listed securities				9,010,861	5,847,404	11.16%		

OPERATIONS REVIEW *(Cont'd)*

LISTED INVESTMENTS REVIEW *(Cont'd)*

As the global economy continued its slow down in 2002, earnings of listed companies were generally affected. The Hang Seng Index ("HSI") was down 18.2% in 2002, marking the third consecutive year of negative return.

During the first quarter, most Asian stock markets continued to rally as exports to the U.S. improved significantly. Due to the lack of export-related companies among the major constituent stocks in the HSI, the Hong Kong market continued to lag behind most of its Asian counterparts in the period. Even for blue chip and constituent stocks, uncertainties in China's mobile communications sector affected the performance of China Mobile and China Unicom, whereas concerns over the prospects of Hutchison's 3G earnings in the near future hurt the performance of Cheung Kong and Hutchison. As a result, the HSI was down 3.2% in the first quarter. However, the Hang Seng China Enterprises Index ("HSCEI") was up 16% in the quarter, driven mainly by the surge in cyclical stocks; and China's natural resources and petrochemical sectors were given impetus to a rally, riding on expectations of a global recovery.

In the second quarter of 2002, concerns over accounting irregularities in corporate America coupled with a deceleration of global growth rate sent the major stock market indices sharply lower in the U.S. and Europe. Investors became more skeptical on the outlook of technology, media and telecom ("TMT") stocks as demand for personal computers and handsets remained weak. Despite the weakness in global and Asian equity markets, the HSI rallied in mid-April and briefly broke above 12,000 points in mid-May. Investors continued to bid up the prices of mid and small cap export-related stocks until late May when the HSI finally succumbed to profit taking as overseas markets continued to slump. Export-related stocks and TMT stocks were most affected during the correction period that lasted from late May to late June, and the HSI was down 3.9% in the second quarter. Nevertheless, China-related stocks continued to perform well in the second quarter, as liquidity in China remained strong. The HSCEI was up 6.5% in the second quarter, driven mainly by the rally in power companies and airlines.

The third quarter of 2002 witnessed one of the worst quarters in the history of Hong Kong's stock market. Disappointing corporate results, deceleration of global growth rate, corporate governance scandal sent major stock market indices sharply lower in the U.S. and Europe. Investors continued to dump TMT stocks as demand for personal computers and handsets remained weak. On the domestic front, fears of further weakness in residential property prices triggered a plunge in property stocks, and the HSI was down 14% in the third quarter. In addition, after two spectacular quarters in the first half, China-related stocks finally succumbed to profit taking and investors remained cautious in the third quarter, with the HSCEI down 13% in the period. The aviation sector was affected by the surge in fuel prices, whereas the oil and gas sector benefited from higher crude oil prices.

OPERATIONS REVIEW *(Cont'd)*

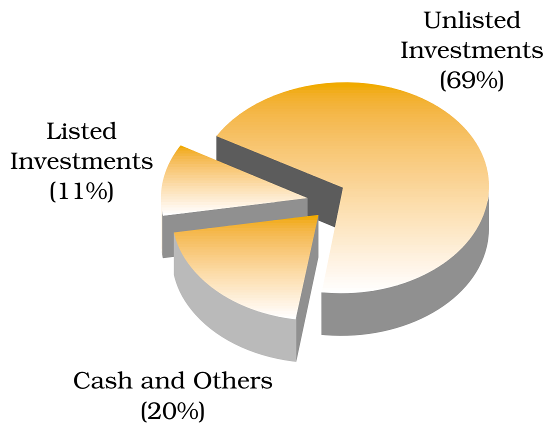
LISTED INVESTMENTS REVIEW *(Cont'd)*

The HSI fell to a four year low in early October as continuous revelation over irregularities of corporate governance in the U.S. and a deceleration in global growth rate continued to affect the stock market. However, in mid-October, better-than-expected corporate results from major technology companies in the U.S. triggered a powerful rebound in all the major stock markets in the world. Hong Kong's property stocks also performed well in October and November due to anticipation that the Hong Kong government would initiate measures to stabilize prices of residential property. The rebound in the HSI that started in mid-October ended in early December when uncertainties enshrouding the U.S.-Iraqi tension and the impact it would have on the global economy again dampened investor sentiments, and the HSI was up only 2.7% in the fourth quarter. After consolidating in the third quarter, the HSCEI recovered along with the HSI in mid-October. Basic materials and petrochemical stocks performed extremely well in the quarter as commodity prices rallied strongly but performance of power companies was affected by uncertainties of the proposed reform in the sector. The HSCEI was up 5.3% in the fourth quarter as a result.

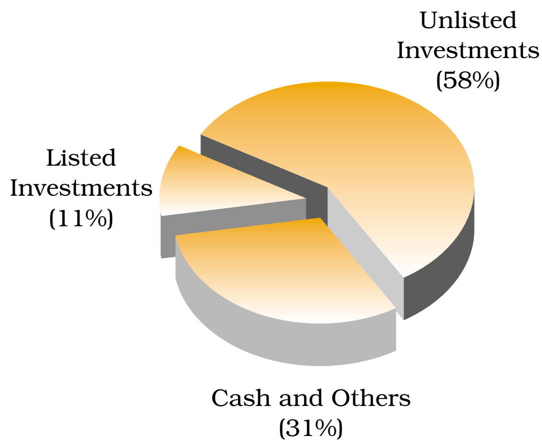
The Company continued to maintain a conservative approach in managing listed securities throughout the year as timing for global economic recovery remains uncertain. By the end of December 2002, the Company's listed portfolio registered a 12.6% loss for the year.

Investment Allocation

December 31, 2002



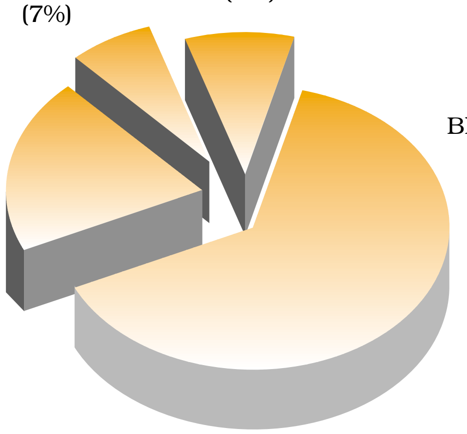
December 31, 2001



OPERATIONS REVIEW *(Cont'd)*

LISTED INVESTMENTS REVIEW *(Cont'd)*

Listed Securities Portfolio Allocation



Investment Performance

	Total Relative Performance		
	1 year	2 years	3 years
The Company's Listed Securities Portfolio	-13%	-35%	-37%
Hang Seng Index	-18%	-38%	-45%
Hang Seng Midcap Index	-8%	-21%	-33%
Hang Seng China Enterprises Index	13%	23%	1%
Hang Seng China Affiliated Corp Index	-25%	-38%	-49%
All Ordinaries Index	-16%	-33%	-42%
Shanghai B-Share Index	-34%	27%	199%
Shenzhen B-Share Index	-30%	36%	121%
GEM Index	-45%	-64%	-89%
Peregrine Greater China Index	-5%	-17%	-21%

OPERATIONS REVIEW *(Cont'd)*

UNLISTED INVESTMENTS REVIEW

Unlisted Investments

As at December 31, 2002

Committed investments	Nature of business	% of equity interest	Amount committed *US$*	Amount invested at cost *US$*	Value of investment at 31.12.2002 *US$*	% of net asset value	Dividend income *US$*	Accumulated dividend income *US$*
Shanghai Lian Ji Synthetic Fibre Co., Ltd. ("Lian Ji")	Chemical Fibres	11.1	6,121,600	6,121,600	6,121,600	11.69	1,218,768	1,994,331
Suzhou Taihai Automobile Ferry Wharf Co., Ltd. ("Taihai Ferry")	Automobile Ferries	34	2,661,440	2,661,440	2,661,440	5.08	569,965	1,287,898
Concord Greater China Limited ("CGC")	Hyper Markets	10.94	8,700,000	8,700,000	11,400,000	21.76	—	6,075,000
Shanghai Well Bright Food Co., Ltd. ("Well Bright")	Frozen Prepared Food	30	3,960,000	3,960,000	3,140,000	6.00	146,549	146,549
Everflow Capital Limited	Property Investment	19	2,185,000	2,185,000	2,185,000	4.17	—	—
Zhejiang Huguang Heat & Power Co., Ltd. ("Zhejiang Huguang")	Power Supply	25	2,980,000	2,980,000	722,424	1.38	—	2,058,910
Shanghai Hua Xin High Biotechnology Inc. ("Hua Xin")	Pharmaceuticals	20	1,924,000	1,924,000	841,600	1.61	—	—
Semiconductor Manufacturing International Corporation ("SMIC")	Semiconductors	0.603	6,000,000	6,024,251	6,024,251	11.50	—	—
Harbin Brewery Group Limited ("HBGL")	Brewery	N/A*	1,794,941	1,794,941	2,301,472	4.39	—	—
ENE Technology Inc.	Cardbus and Cardbay IC Products	1.80	498,227	498,227	498,227	0.95	—	—
Shanghai Hua Yin Warehouse Co., Ltd.	Warehousing	34.9	1,047,000	1,047,000	—	—	—	—
Shanghai Xinpu Transportation Co., Ltd.	Land Transportation	34.9	698,000	698,000	—	—	—	—
			38,570,208	38,594,459	35,896,014	68.53	1,935,282	11,562,688

* *No percentage of equity interest can be presented as the investment is a debt security.*

Note: Investment in Shanghai Asia-Pacific Club Co., Ltd. ("Asia-Pacific Club") and Shanghai Shenergy Jinhua Industrial Co., Ltd. ("Shenergy Jinhua") were liquidated and disposed of respectively in the year 2002.

Dividend income of US$234,737 from Shenergy Jinhua was recognised in the Company's income statement before it was disposed of during the year.

OPERATIONS REVIEW *(Cont'd)*

UNLISTED INVESTMENTS REVIEW *(Cont'd)*

During the year under review, the Company's unlisted investment portfolio comprised of 10 investments, with a total fair value of US$35,896,014 at the end of 2002.

Concerns over corporate governance in the U.S. and a deceleration in global growth rate precipitated a sharp dive in all the major stock markets in 2002. China's economy, however, maintained an impressive 8% GDP growth for the year. Despite China's robust outlook, the Company remained prudent in its selection of new projects for direct investment. Out of scores of new proposals screened and appraised during the year, and after careful evaluation and due diligence conducted, the Company invested in only one new project: ENE Technology Inc., an integrated circuit design company, with an investment amount of US$498,227.

The Company continued its two-pronged growth strategy in managing its investment portfolio. It continued to strengthen the monitoring and maintenance process of invested projects by active participation in overall project management and instituted specific measures towards the more challenging ones. It also screens and selects viable new investments to upgrade the portfolio's asset quality.

For divestment and/or exit strategies, the Company was able to gain some grounds in 2002.

- The Company's 5% share sale in Hua Xin was officially completed and the US$266,053 sale proceeds was received in May.

- Liquidation process of the Asia-Pacific Club project was completed, and the Company recovered a total of US$1,849,000, principal and accrued interest combined, representing a 14.14% return on investment.

- As condition precedent to its agreeing to Lian Ji's third phase expansion and capital enlargement, the Company procured concurrence from the other two shareholders to accept its divestment of 3% of its beneficial interests in Lian Ji at even split to them.

- The Company successfully negotiated partial recovery of its investment cost in Shenergy Jinhua, a written-off cement production project, plus enstitlement to outstanding dividend distribution for an aggregate consideration of 5,000,000 Renminbi or approximately US$604,058.

- As for its US$500,000 investment in GSMC International ("GSMCI"), a testing and packaging project for the semiconductor industry, the Company also recovered US$170,000 capital plus an accrued interest of US$66,026 from GSMCI in 2002.

OPERATIONS REVIEW *(Cont'd)*

UNLISTED INVESTMENTS REVIEW *(Cont'd)*

- As for its investment in Zhejiang Huguang, the disputed guaranteed return heat and gas project, the Company procured the signing of an amended shareholders agreement with the Chinese shareholder, providing corresponding amendments in the articles of association and hence an alternative to resolve the issues of past due fixed dividends payments.

- Investments in both Taihai Ferry and CGC recorded satisfactory results in 2002.

- Its investment in SMIC, the only up and running 8-inch wafer fabrication plant in China is in sync with the timeline given and SMIC has become a first-class foundry in China.

Investments made in recent years have provided encouragement from their performance and market development. The Company is hopeful they will all generate positive returns.

1. Shanghai Lian Ji Synthetic Fiber Co., Ltd. ("Lian Ji")

Situated in the Pudong area of Shanghai Municipality, Lian Ji manufactures chemical fiber for the textile and chemical industries since 1994. In July 1995, the Company invested US$6,275,000 in exchange for a 15% equity interest in Lian Ji. Subsequent to the Company's share sale to the other two shareholders and subsequent enlargement in share capital by all shareholders agreeing to contribute the undistributed profits portion in Lian Ji from prior years, the Company's investment in Lian Ji was adjusted to US$6,121,600, representing 11.1% of the registered capital.

Lian Ji's performance in 2002 suffered as a result of the price increase of purified terephthalic acid (PTA), a raw material, and the downward price pressure of synthetic and short fiber. However, conceivable measures have been adopted to increase sales and turnover for the year has increased to US$101,846,000, which was 17.32% higher than the year 2001, net profit for the year was US$1,775,000, compared to a loss of US$2,146,000 in 2001 during which period US$3,200,000 were spent to overhaul production machinery.

Lian Ji held its board of directors meeting on April 23 to declare a dividend for 2001 and resolved to distribute all prior years' profits to shareholders for re-investment purpose. The Company received its proportionate dividend of US$117,168 in early August and the verification of US$1,101,600 dividend for re-investment was completed in September. In 2002, the Company recorded a total of US$1,218,768 dividend income from Lian Ji.

OPERATIONS REVIEW *(Cont'd)*

UNLISTED INVESTMENTS REVIEW *(Cont'd)*

1. Shanghai Lian Ji Synthetic Fiber Co., Ltd. ("Lian Ji") *(Cont'd)*

A special board meeting was convened on May 28 to facilitate the commencement of the third phase expansion to increase production capacity of synthetic fiber to 150,000 tons per annum. At that meeting, all three shareholders resolved and signed all relevant amendments to the joint venture contract and articles of association, thereby approving and activating commencement of construction work for the third phase expansion. Completion of the entire project is scheduled to take place around the middle of 2004.

After weighing Lian Ji's ability to generate respectable return in the short term as a result of its capital expenditure to increase production capacity, the Company decided to cash out upfront some of the anticipated profits by negotiating as condition precedent to its agreeing to the expansion plan a divestment of some of its shareholdings in Lian Ji. After lengthy negotiation, the Company entered into a share sale agreement with the other two shareholders to dispose 1.5% of its beneficial interests in Lian Ji to each of them for an aggregate price of US$1,534,000. As a result of the share sale, the Company has a realized gain of US$278,900.

2. Suzhou Taihai Automobile Ferry Wharf Co., Ltd. ("Taihai Ferry")

Taihai Ferry was established in May 1995 to construct and operate a pier and ancillary transportation services between Taicang City and Haimeng City in Jiangsu Province for a period of 25 years. The Company invested US$2,661,440 for a 34% equity stake in Taihai Ferry.

After adopting measures to curtail cost and increase sales, Taihai Ferry achieved the best performance results in its history in 2002 by recording an operating income of RMB39,518,000 for the year, a 10.82% increase from the previous year. Out of that, a net profit of RMB14,801,000 was realized, up 29.43% from the previous year, exceeding the RMB13,000,000 target for the year.

During the year, Taihai Ferry conducted 32,318 voyages and transported 762,848 vehicles, representing a 6.02% and 6.6% respective increase from the previous year. At its board meeting dated June 18, Taihai Ferry resolved to distribute a dividend for 2001, and the Company has since received RMB4,717,000 or approximately US$569,965 for its shareholdings.

OPERATIONS REVIEW *(Cont'd)*

UNLISTED INVESTMENTS REVIEW *(Cont'd)*

3. Concord Greater China ("CGC")

In September 1998, the Company entered into a contract with Concord Champion Ltd. ("CCL") to invest US$8,700,000 for 22.48% of its equity interest. CCL is an investment holding company incorporated in the British Virgin Islands whose principal business is to invest and develop hypermarkets in the PRC. In December 2000, CCL went through a restructuring exercise. A holding company called Concord Greater China ("CGC") was incorporated to become CCL's parent company, and the Company's equity interest in CCL was correspondingly transferred to shares in CGC. After a series of subsequent increase in capital to which the Company did not participate, its investment in the registered share capital in CGC was diluted to 10.94%.

RT-Mart Shanghai Limited ("RTMS") and Jinan People's RT-Mart Limited ("RTMJ"), the two project holding companies each with a number of hypermarkets in China, continued to benefit from the rapid development of the business in China. For 2002, RTMS recorded a turnover of US$426,035,000, up 39.32% from last year. A net profit of US$6,655,000 was recorded, which was 638% higher than the previous year. RTMS continued its expansion strategy, with the total number of stores under management increased to 17 by the end of December, a 70% increase from the previous year.

RTMJ recorded a turnover of US$121,570,000 in 2002, up 88% from the previous year. A net profit of US$739,196 was recorded, compared with an operating loss of US$1,382,796 in 2001. As at the end of December, there are 9 stores under management by RTMJ. Thus a total of 26 stores are currently under management by RTMS and RTMJ together. However, after consolidating substantial operating losses incurred by its joint venture partner, CGC recorded a consolidated profit of US$2,401,000 for the year 2002.

4. Shanghai Well Bright Foods Co., Ltd. ("Well Bright")

Well Bright produces and distributes frozen prepared food and its customer base included Kentucky Fried Chicken and Pizza Hut. In March 1996, the Company invested US$3,960,000 for a 30% equity interest in Well Bright. The remaining 70% equity was beneficially owned by Warm Brighty Limited which was subsequently transferred to Amazing Results Corporation ("Amazing Results"), an investment vehicle of a Taiwan investor.

Well Bright's turnover for 2002 was RMB200,681,800, up 17.0% from the previous year. The current year's net profit was RMB11,091,700, almost unchanged from the previous year.

OPERATIONS REVIEW *(Cont'd)*

UNLISTED INVESTMENTS REVIEW *(Cont'd)*

4. Shanghai Well Bright Foods Co., Ltd. ("Well Bright") *(Cont'd)*

The Company called a meeting of Well Bright's board of directors on May 31, during which it was unanimously resolved that a dividend for 2001 would be declared and distributed. The Company's entitlement would be RMB1,210,000 or approximately US$146,549.

The Company became aware of irreconcilable differences between itself and the other shareholder on the management and operation of Well Bright, and after much discussions to no avail, filed a petition for arbitration with China International Economic and Trade Arbitration Committee, Shanghai Branch in late June. Arbitration proceedings was instituted on November 7, 2002. The arbitration tribunal attempted to mediate between parties on November 29, during which process the Company stated its position that its only objective, without prejudice to its entitlement of dividend already declared in the past and in future so long as it remains as a shareholder, was to divest its entire beneficial interest in Well Bright. Amazing Results replied that it welcomes the Company to remain as shareholder in Well Bright, however, if it were to purchase the Company's equity interest in Well Bright, Amazing Results could only do that over a period of extended years. That reply reinforces the Company's perception that litigation remains the only option available. Based on Amazing Results' reply, the Arbitration Tribunal will make its ruling and the Company may have to resort to legal recourse to protect its interests.

5. Everflow Capital Limited ("Everflow Capital")

Everflow Capital is an investment holding company incorporated in the British Virgin Islands. Through its 100% subsidiary Samson Assets, the company has an indirect 100% ownership in Anxin Real Estate Development Co., Ltd. ("Anxin") whose primary objective is to develop a quality commercial property in the Shanghai area.

In March 1995, Anxin began construction of Aetna Tower, a prime commercial office building located near the Hongqiao Development Zone. The Company participated in this development by investing US$5,035,000 for a 19% equity interest in Everflow Capital. As the registered share capital of Everflow Capital was subsequently adjusted to US$11,500,000 in 2001, the Company's equity stake in Everflow Capital was reduced to US$2,185,000 after a repayment of capital in September 2001.

As a result of non-renewal of lease by certain anchor tenants, occupancy rate of Aetna Tower fell from a historical high of 97.04% to 95% at the end of December. Anxin's turnover for 2002 was US$4,284,000, almost unchanged from the previous year. Net profit for the year was US$371,626, marking 2002 as Anxin's first profitable year. On a consolidated level, Everflow Capital's net profit for 2002 was US$1,130,000.

OPERATIONS REVIEW *(Cont'd)*

UNLISTED INVESTMENTS REVIEW *(Cont'd)*

6. Zhejiang Huguang Heat and Power Co., Ltd. ("Zhejiang Huguang")

Zhejiang Huguang supplies thermal power and electricity to industrial users in Shaoxing City, Zhejiang Province. In June 1994, the Company invested US$2,980,000 for a 25% equity stake in the company. According to the contract, the Company is entitled to a fixed annual return of US$596,000 inclusive of principal amortized over the 11 years co-operation period.

Zhejiang Huguang's performance in 2002 was adversely affected by the increase in coal prices, during which a turnover of RMB105,719,900 was recorded, up 8.96% from the previous year. A net loss of RMB2,212,700 was recorded for the year.

A dispute arose between the Company and the Chinese joint venture partner when the latter attempted to re-negotiate the agreed amount of annual payback, citing China's policy promulgated after the establishment of the cooperation, whereby the state prohibits guaranteed return made by any Chinese joint venture partner to its foreign counterpart, on the ground that such arrangements tantamount to debt instruments and are not in the true spirit of sharing risk and reward proportionately.

After much negotiation, the Company and Zhejiang Huguang had meetings of the mind and executed an amended shareholders agreement with corresponding amendments in the articles of association on August 15. The documents have already been approved by the Foreign Investment Commission, and are now waiting approval from the State Administration of Foreign Exchange to repatriate hard currency for payment of the Company's past due fixed dividends.

7. Shanghai Hua Xin High Biotechnology Inc. ("Hua Xin")

Hua Xin was founded in 1993 by a member of the Chinese Academy of Science. The company specializes in the production and development of various anti-cancer drugs. In December 1995, the Company invested US$2,405,000 in exchange for a 25% equity in the venture. In February 2000, the Company sold 5% of its in Hua Xin to Shanghai De Chang Company Limited for US$266,053 and retains a 20% balance equity interest in the company. Official approval for the Company's 5% share sale was completed and the US$266,053 proceeds in hard currency was received in May 2002.

OPERATIONS REVIEW *(Cont'd)*

UNLISTED INVESTMENTS REVIEW *(Cont'd)*

7. Shanghai Hua Xin High Biotechnology Inc. ("Hua Xin") *(Cont'd)*

Despite measures taken by Hua Xin to increase sales, the collapse in pharmaceutical prices in addition to cost increase have seriously affected its performance in 2002. Hua Xin's turnover for the year was RMB13,768,000, up 71.2% from the previous one. Compared with the previous year, net loss for the year was further widened to RMB13,980,000.

To get out from the doldrums, Hua Xin needs to increase sales by launching new products. As at the end of October, the new products, including injection type of Interferon and GM-CSF, have obtained Good Manufacturing Process ("GMP") from the State Drugs Administration Bureau, paving way for Hua Xin to obtain production license.

8. Semiconductor Manufacturing International Corporation ("SMIC")

SMIC is a holding company incorporated in the Cayman Islands. It is a single purpose company by having 100% investment in Semiconductor Manufacturing International (Shanghai) Corporation ("SMIC Shanghai"). The principal business of SMIC Shanghai is in the manufacturing of semiconductor chips, which includes wafer fab, process technology, IC design service, etc. The Company has an aggregate investment of US$6,000,000 in SMIC.

SMIC's operating results in 2002 was reported satisfactory. It has also become the first foundry in China that can produce 0.18-µm 8-inch wafers. Fab 1 began production in September, and is expected to reach 25,000 wafers per month by the end of the year. Fab 2 completed equipment installation and began production in September, and is expected to reach 7,000 wafers per month by the end of the year. Fab 3 is designed to support those customers requiring advanced copper process and is the first such fab in China able to provide such process with an expected production target of 5,000 wafers per month to be reached at the end of the year. SMIC expects to reach full capacity by the end of 2004, producing 85,000 8-inch wafers per month, and assumes a role play as a world-class foundry serving both the China and the global markets.

For the foundry aspect of its business, SMIC signed a production agreement with Fujitsu on February 1 to produce 0.22-µm and 0.18-µm Fast Cycle RAM for Fujitsu. On December 9, SMIC entered into an agreement with Infineon Technologies AG, Germany ("Infineon"), the third largest DRAM manufacturer in the world. Under the agreement, Infineon will transfer its 0.14-µm DRAM trench technology to SMIC, with an option for future transfer of its 0.11-µm technology. In return, SMIC will commit an undisclosed production capacity to manufacture those DRAM exclusively for Infineon.

OPERATIONS REVIEW *(Cont'd)*

UNLISTED INVESTMENTS REVIEW *(Cont'd)*

8. Semiconductor Manufacturing International Corporation ("SMIC") *(Cont'd)*

ChipPac, the world's largest chip packaging and testing plant, also signed a non-exclusive agreement with SMIC to provide packaging and testing of semiconductor products. On April 19, 2002, SMIC signed a memorandum of understanding with Interuniversity Microelectronics Center, a leading European research center on microelectronics to establish a long-term cooperative relationship to conduct research and development of advanced manufacturing process in semiconductor. In August 2002, VeriSilicon Microelectronics (Shanghai) Co. Ltd., a leading intellectual property provider for semiconductor manufacturing foundries in China, announced the release of VeriSilicon's Standard Design Platform for SMIC's 0.18-µm CMOS process.

SMIC was awarded accreditation of ISO9001: 2000 by the British Standard Institute in July 2002, thereby becoming the first pure foundry in China to receive such certification. SMIC announced that it is ready to launch its certified 0.18-µm CMOS logic technology on August 16, the first of such process achieved in China.

The Company paid the last tranche of its committed investment to SMIC on June 27, thus completing the full payment of its investment in the project.

9. Harbin Brewery Group Limited ("HBGL")

Harbin Brewery Group Limited is an investment holding company registered in the Cayman Islands. Its underlying assets comprised of beneficial interests in 11 breweries in China with combined annual production capacity exceeding 1.26 million tons. The Company subscribed for a HK$14,000,000 (approximately US$1,800,000) convertible bond ("CB") issued by HBGL on October 29, 2001. The CB allows the Company the flexibility either to convert into ordinary shares at IPO price when HBGL obtains its approval for listing, or to redeem in full plus the coupon rate.

HBGL obtained requisite approval from all relevant authorities in China and Hong Kong for listing, and a total of 242,000,000 shares for public offering and placement were issued with IPO price fixed at HKD1.56 per share, raising approximately HK$340,000,000 from the flotation. HBGL became listed on June 27, 2002 on the main board of the Hong Kong Stock Exchange under the assigned stock code 249.

OPERATIONS REVIEW *(Cont'd)*

UNLISTED INVESTMENTS REVIEW *(Cont'd)*

9. Harbin Brewery Group Limited ("HBGL") *(Cont'd)*

Pursuant to its listing on the main board of the Hong Kong Stock Exchange, HBGL posted an interim net profit of HK$54,280,000, up 40% from the corresponding period the year before. In late August, HBGL acquired a 100% interest in Ballantine Management Limited ("Ballantine") for a cash consideration of HK$70,000,000. Ballantine is the holding company of three breweries in the northeast region of China, with a combined production capacity of approximately 220,000 tons per annum. HBGL's production capacity is increased by 21% to 1,264,000 tons per annum after this acquisition. At the end of December, the closing price of HBGL was HK$2.075, representing a 33.01% increase from its IPO price of HK$1.56, making it one of the most successful new listings in 2002.

Prior to maturity of the CB, the Company opted to extend the maturity in accordance with a proviso contained in the subscription agreement. The CB's amended maturity was extended to fall due on February 26, 2003 without prejudice to all rights and privileges accorded to the Company.

On January 7, 2003, the Company converted the entire CB into HBGL's listed ordinary shares and disposed the shares in block trade at HK$2.05 per share. The Company achieved an approximate 40% return on investment in HBGL, realizing a total return of US$702,765 in 14 months.

Investments Withdrawn

1. Shanghai Asia-Pacific Club Co., Ltd. ("Asia-Pacific Club")

Asia-Pacific Club was intended to be a membership-based club targeting patronage by the expatriate business communities in Shanghai. It is a Sino-Japanese joint venture between Asia-Pacific Business Link Ltd. ("APBL") and Shanghai Greenland General Co. Ltd. In 1994, the Company invested US$1,620,000 for a 20% equity interest in the venture.

Implementation of the project had experienced undue delay owing to APBL's inability to raise sufficient capital as undertaken. Subsequently all three shareholders agreed on April 7, 2001 to wind up Asia-Pacific Club, and a liquidation committee was set up to execute the liquidation process. The governing authority granted its approval for Asia Pacific Club to remit liquidation proceeds in hard currency on September 4, and the Company received a total sum of US$1,849,000, representing its US$1,620,000 original investment and US$229,000 accrued interests, which portion translates into a 14.14% return on this investment.

OPERATIONS REVIEW *(Cont'd)*

UNLISTED INVESTMENTS REVIEW *(Cont'd)*

Investments Withdrawn *(Cont'd)*

2. GSMC International Limited ("GSMCI")

GSMCI is a company incorporated in the Cayman Islands in August 2000. It in turn has a 100% beneficial interest in Global Semiconductor Manufacturing Corporation Ltd. ("GSMC") situated in Guangdong Province, China. GSMC's principal business is in the packaging and testing of signal transistors, power transistors and discrete integrated circuit ("IC") devices. In December 2000, the Company agreed to invest US$1,000,000 in GSMCI in the first phase of its capital injection plan. US$500,000 was invested in the same month.

However, GSMCI was unable to raise the minimum amount (part of its undertaking) within three months after signing of the agreement, the Company exercised its rights contained in the agreement by lodging a formal request to GSMCI for the refund of US$500,000 plus accrued interest beginning from the initial date of investment. In December 2001, the chairman and legal representative issued a promissory note of NT$18,630,000 to the Company, promising to repay the US$500,000 investment to the Company plus 8% accrued interest from the initial date of investment to the end of January 2002. However, no remittance was received on due date. Further negotiations were conducted between the parties, and a buyback agreement was signed on March 27. According to the agreement, repayment of the invested amount made by the Company would be made in three installments with accrued interest payable in April, July and October respectively. By the end of 2002, the Company has recovered US$170,000 capital investment in GSMCI plus accrued interest of US$66,000. Payments for the balance have experienced delay and the Company is working to have the entire balance received as soon as practicable.

Operations Review *(Cont'd)*

UNLISTED INVESTMENTS REVIEW *(Cont'd)*

New Investment

ENE Technology Inc. ("ETI")

ETI specializes in the design and production of Cardbus & Cardbay IC products, which are widely used in portable electronic devices such as PDAs and notebook computers. ETI's main clients include first tier notebook manufacturers in Taiwan. It has also retained a leading integrated securities house in Taiwan as lead manager to prepare for a flotation in Taiwan. On September 10, 2002, ETI shares began to trade on Taiwan's grey market, and is expected to be listed on Taiwan's OTC sometime in the first half of 2003.

Due to the stringent requirement to obtain certification of these IC products from clients, there are currently only five companies in the world who are fully certified to have the requisite technology. In that regard, ETI has a two to three years' lead time in technology ahead of its peers in Taiwan. The Company has agreed to subscribe for ETI's pre-listing shares at or below NT$45 per share, with a maximum commitment of US$500,000. By the end of 2002, the Company has subscribed for 400,000 shares of ETI, representing an investment of US$498,227. In November, ETI announced a script dividend of 7 for 100, and the Company's holding in ETI has thus increased to 428,000 shares on an ex-dividend basis.