

On behalf of the board of directors (the "Board"), I would like to present to the shareholders the annual report of Concepta Investments Limited (the "Company") for the year ended 31st March 2004 (the "Year").

Business review

For the Year, the net gain on investment in securities amounted to approximately HKD20.50 million comprising net realised gain of HKD17.10 million and net unrealised gain of HKD3.40 million. After taking into account administrative expenses, finance cost and taxation, the net profit for the Year amounted to HKD14.50 million, which represents a return on equity of approximately 31% based on the capital and reserves of the Company of approximately HKD46.30 million at the beginning of the Year.

The Year, being the first year of active operations, the Company had adopted a conservative approach in building its investment position. The Board believe preservation of capital is as important as building wealth and this will continue to be the Company's investment principle in the future. Whilst the Company will hold a larger portion of cash and remain defensive until it finds suitable investment avenues, it will not hesitate to invest if the right opportunity arises. In addition to the cyclical stocks which depend on the timing of the cycle, the Company also searching for secular growth stories to build its core holdings.

China Data Broadcasting Holdings Limited is one of such holdings that can capture the technology change with a good brand name and business model. It possesses the following comparative advantages through its major shareholder Apex Digital, Inc. (1) low production costs in China; (2) strong logistics and distribution networks in the USA (3) research and development support from top-tier Silicon Valley companies. The Company is confident that it will be a future winner as our world is making a vital transition from analog to digital.

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Another major segment that the Company had been investing was H shares. The incremental demand for raw materials in China drives the commodities prices up. This is particularly true for commodities such as steel, cooper and aluminum. The Company have invested in related stocks, including Aluminum Corporation of China Limited, Jiangxi Copper Company Limited and other steel players. However the implementation of a series of tightening measures by Chinese Government may adversely affect commodity stocks. The Company will closely monitor the global demand/supply situation and assess whether opportunities exist once commodity market and stock market have adjusted to these tightening measures and settled down.

Liquidity and financial resources

As at 31st March 2004, the Company had bank balances of HKD41,554,774 (2003: HKD46,288,698). As all of the cash was placed in Hong Kong Dollars short-term deposits with major banks in Hong Kong, exposure to exchange fluctuation is considered minimal. The Board believe that the Company has sufficient financial resources to satisfy its immediate investments and working capital requirements.

The Company had net current assets of HKD60,477,772 (2003: HKD46,201,564) and no borrowings as at 31st March 2004, which positions the Company advantageously to pursue its investment strategies and new investment opportunities.

Management Discussion and Analysis

The gearing ratio, which was calculated on the basis of total liabilities over total shareholders' funds as at 31st March 2004, was 0.074 (2003: 0.003).

Capital structure

There has been no change in the Company's capital structure during the Year.

Employees

During the Year, the Company had 3 (2003: 2) employees, including executive directors. Total staff costs, including directors' emoluments for the year amounted to HKD583,387 (2003: HKD86,000). The Company's remuneration policies are in line with the market practice and are determined on the basis of the performance and experience of individual employees.

Charges on the Company's assets and contingent liabilities

As at 31st March 2004, there were no charges on the Company's assets and the Company did not have any significant contingent liabilities.

Prospects

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After nearly a year of strong price gain of H shares, H shares have already gone through price earning expansion phrase and also much of the growth in 2003 has priced in, the key question to ask in 2004 is there sustainability of the growth momentum to justify stretched valuation? H shares now trading at around 10 times of price-earning ratio and 3% yield. This is not cheap as a large portion of stocks are cyclic which usually deserve a lower valuation. Market is undergoing correction to price in the tightening by Chinese Government. The Board are of the view that the market is under demanding valuation and need some time to price in the macro and micro influences of monetary tightening measures and administrative credit controls.

Investment growth of Chinese economy can only be slowed down in a meaningful manner if it is knocked on the head with Zhu Rongji-style policy. A major correction/downturn are expected in investment related stocks while consumption growth is expected to have a much lesser influence. However, in the Board's view, most of the consumption plays are not cheap.

Judging from the data, the moderation of Chinese economy growth in the first quarter of 2004 remains limited. Gross Domestic Product surged by 9.7% compared to the same period of 2003, while fixed asset investment increased by 43%. Meanwhile, retail sales rose 10.7% in compared to the same period of last year and Consumer Price Index inflation stood at 2.8%. The severity of China's economic overheating has been underestimated because it is expressed in terms of supply bottlenecks in power, transportation and commodities, instead of price increases. If data for the second quarter of 2004 still show low level of moderation, this may invite harder tightening measures.



The visibility right now is still low while the valuation is quite demanding as last year rally moves the price higher while the potential effects of macro-tightening shift the earnings on the downward side. The Company is closely monitoring China's policy to see the extent of the influences.

Use of Proceeds

The net proceeds from the issue of new shares of the Company were fully applied in investments according to the investment policies and objectives of the Company.

Appreciation

On behalf of the Board, I would like to thank all our shareholders for their continued trust and support and the investment manager for their dedicated efforts.

ZHANG Gaobo

Executive Director

Hong Kong SAR, 15th July 2004