

Chairman's Statement

On behalf of the board of directors ("Directors") of China Northern Enterprises Investment Fund Limited (the "Company"), I would like to present the Group's annual report and audited financial statements of the Company and its subsidiaries (collectively, the "Group") for the year ended 30 June 2004.

During the year under review, the global and the People's Republic of China (the "PRC") financial markets saw many challenges. The PRC Government's measures to cool the economy provoked a sharp fall in the price of PRC-related stocks from early 2004 to mid-2004. The steady upward trend of US interest rates and exorbitant oil prices also posed uncertainties in the capital market and slowed down the progress of many investment projects.

Against a backdrop of turbulent market conditions, the Group continued to leverage on its expertise in the finance market to look for quality investment projects in the PRC and provide financial services to help them list in overseas markets. The Group aims at providing investors with alternative options, to directly invest in unique and quality projects in the PRC and realize gains through capital appreciation.

BUSINESS OVERVIEW

During the year under review, the Group was successfully listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 27 October 2003. Net proceeds from the new issue amounted to approximately HK\$44.1 million. The success of the Group's listing has helped to enhance its recognition among local and overseas investors in capitalizing on the vast investment opportunities in the PRC market.

As at 30 June 2004, 38.87% of the Group's portfolio of investment assets were in listed investments, 21.54% in unlisted investments and the remaining 39.59% in cash and others.

To strengthen our foothold in the PRC market, the Group appointed Guotai Junan Assets (Asia) Limited ("Guotai Junan") as its investment manager effective from 1 June 2004. Guotai Junan has extensive investment experience in the PRC. Its ultimate parent company, Guotai Junan Securities Co. Ltd., is one of the leading securities companies in the PRC with an extensive network and expertise backing in the PRC. We believe that the strong investment team will complement the Group's vision, by seeking unique direct investment opportunities in the PRC and groom them to seek fund-raising opportunities.

INVESTMENT PORTFOLIO

During the period under review, the Group actively pursued quality investment projects in the PRC in order to generate return from capital appreciation in the future.

MELLOW ANTI-COUNTERFEIT NET SYSTEM CO., LTD.

The Group acquired a 12% stake in Mellow Anti-Counterfeit Net System Co. Ltd. ("Mellow") in the PRC through the Group's wholly-owned subsidiary. Mellow is engaged principally in the development and application of patented anti-counterfeiting application and devices. It has currently 23 sales representative offices in the PRC. Mellow is committed to applying and integrating the state-of-the-art anti-counterfeiting techniques to effectively protect the intellectual property of branded and quality products, especially consumer products such as cigarettes, wines and other consumer products.

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BEIJING ILLUMINATION (HK) LTD.

The Group acquired a 0.5% interest in Beijing Illumination (HK) Ltd. ("Beijing Illumination"). Beijing Illumination is principally engaged in the R&D, manufacture and distribution of a variety of industrial and specialty lighting source products and accessories under its own brand names of AIHUA and AHP, as well as on an OEM basis. Its products can be classified under four main categories, namely, (1) metal halide lamps; (2) high-pressure sodium lamps; (3) ultra high-pressure mercury lamps; and (4) lighting accessories.

INVESTMENT IN SECURITIES

The Group also invested in a portfolio of securities and many of them are listed companies engaged in different unique and high-growth industries in the PRC market. Despite the turbulence and sharp fall of the PRC-related stocks in the market, the Group believes that these investments will provide attractive returns to the Group in the long run.

PROSPECTS

The Group believes that the above projects have already established a proven revenue model and are actively pursuing access to overseas and local capital markets within the next year. We hope that the eventual listings will not only provide capital gain but also give investors a better understanding of our unique business model, differentiating the Group from the other market players.

The Group also appointed one non-executive director and one independent non-executive director in August 2004 in replacement of the resignations of two former directors. In addition, the Group also appointed one more independent non-executive director in September 2004. The newly appointed directors have substantial experiences in corporate finance, commercial law and accounting fields to strengthen the expertise of the Group's management team.

The implementation of the macro-economic policy to cool the economy in the PRC, the rising interest rates and high oil prices collectively generated uncertainties and may lead to vulnerable markets. However, the Group is fully confident towards the burgeoning PRC market, and believes these factors will not undermine long-term economic growth in the PRC even though ups and downs of the stock markets will be inevitable. We will be cautious in selecting quality projects out of a pool of lucrative projects which meet the appetite of local and overseas investors. The Group is favorably positioned to pick up unique and quality projects in the PRC market and embrace the enormous business opportunities ahead.

Appreciation

The Board would like to take this opportunity to extend our sincere thanks and appreciation for those who have supported us throughout the year.

Yau Chung Hong

Executive Director

Hong Kong, 27 October 2004