



MANAGEMENT'S STATEMENT

On behalf of the board of directors (the "Board"), I have pleasure in presenting the annual report and the audited results of China Treasure (Greater China) Investments Limited (the "Company") for the year ended 31 December 2005.

FINANCIAL RESULTS

For the year ended 31 December 2005, the Company recorded a net loss of HK\$897,386 (2004: HK\$606,511). The loss was mainly due to

- 1) increase in administrative expenses due to the recruitment of additional employees and the payment of salary to executive directors; and
- 2) fair value changes of certain listed investments.

INVESTMENT PORTFOLIO

Unlisted Securities

The Company had disposed its remaining unlisted securities (Korning Investments Limited) in June 2005. While pending clarification of the Serial 11 ruling by the People's Republic of China (the "PRC") government as to the requirement to obtain prior approval from the Foreign Exchange Regulatory Board of the PRC government over investment into PRC citizens' privately owned enterprises announced by mid January 2005, the Company only invested in the PRC's guarantee company by the end of the year. The acquisition has not been completed up to the date of this report.

Listed Securities

During the year, the Company has invested in certain listed securities in Hong Kong, Australia and the United States, some of which are designed for short to medium term investment.

Though losses had been incurred for some of the investments as at 31 December 2005, the Board and our investment manager, United Gain Investment Limited (the "Investment Manager") are confident that the fundamental/prospect of those investments is sound and a return would be generated in the medium run. In fact, subsequent to the year end date, certain of the Company's portfolio have appreciated a lot and the Company had disposed to realise certain profit (as the target price had been reached) and to diversify the exposure in certain equities.

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BUSINESS REVIEW AND PROSPECT

As mentioned in the interim report, despite a quite favorable result for the 1st half of the fiscal year due to the disposal of a listed investment when the takeover news announced, the 2nd half performance is not that encouraging due to

- a) the absence of investment opportunities on the unlisted investment due to unclear the PRC government strategy or opportunities that can provide an exit soon;
- b) the Company does not take part in the booming initial public offer which are usually of hundred times over-subscribed and which would lock up the Company's fund and/or leading the Company to a highly leveraged position;
- c) the value of certain investee companies that the Company invested had not been identified by others and a reduction in share price resulted (yet, this has rebounded much during the 1st quarter 2006); and
- d) the increase in administrative expenses as the Company would like to set up a more proper structure to ensure compliance with the relevant rules and to prepare for the coming growth.

As a result, a loss of HK\$897,386 (2004: HK\$606,511) has been recorded.

During the year under review, due to a number of changes both internally and externally, the Company has reacted accordingly.

Apart from adopting a more proper company structure, the Company has also reacted in line with the changing world. On the internal aspect, the Company has adopted the various recommendations by The Stock Exchange of Hong Kong Limited either in general (amendments in the Model code) or specific to the Company, namely,

- a) the diversification in its investments to avoid concentration risk;
- b) the disposal of the remaining unlisted investment;
- c) the setting up of an office with appropriate employees;
- d) the appointment of a new investment manager;
- e) the appointment of new executive and non-executive directors; and
- f) the reinforcement in the corporate governance.



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BUSINESS REVIEW AND PROSPECT – continued

On the external aspect, due to the unexpected announcement by the PRC government of the Serial 11 guideline without clarification until the end of the year, the Company could focus only on the sourcing and conducting due diligence on various viable deals while execution of the same had to be suspended until the later stage. As such, the majority of the Company's assets were in form of either cash (to prepare for investment when clarification been provided by the PRC government) or listed equity which provided the liquidity when required.

Looking ahead, the Board would continue seeking direct investment opportunities in the Greater China region under the following criteria,

- a) operating companies with proven track records and may have a chance to exit through initial public offer within 2 years' time;
- b) industries that are growing positively as to the overall market pie and/or intervention by the government would be loosened while there are still strong influence by the government (quasi oligopoly);
- c) industries or companies that the Board can provide value-added opinion or constructive advice or that having synergy with the existing portfolio;
- d) companies that have not been identified; or
- e) ownership of proprietary technologies of intellectual properties.

While the unlisted investments would bring in high return when the same are operating well and can achieve a public offer, high return is also associated with high risk and it usually takes quite long time to realise the return.

With the limited fund available for the time being and to ensure a stable return for the shareholders during short, medium, and long term, the Company has adjusted its relative emphasis and has involved in investment in listed equities as well.

While awaiting investment opportunities for medium growth, the Company has adopted the strategy of

- a) identifying those undervalued stocks which are undergoing restructuring and/or re-engineering but which intrinsic value have not yet been identified/fully explored;
- b) taking advantage of the booming in the equity market, part of the fund had been allocated for trading purpose. Yet, to protect the Company's liquidity while pending rewarding opportunities, this is usually restricted to relatively higher capitalisation stocks with good liquidity;
- c) the balance of fund would be placed with bank to earn interest.

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BUSINESS REVIEW AND PROSPECT – continued

This strategy has proved to be successful, despite the intrinsic value of the Company's investment portfolio has not been explored during the year end, the investee companies have achieved good return subsequently and the shares prices of those companies raised a lot during the 1st quarter 2006, a good return is anticipated for the coming years.

In fact, apart from the listed equities, with the contribution in both networking and brainstorming exercise from the new executive and non-executive directors, the management is of belief that certain unlisted investment would start contributing to the bottom line as fast as in the fiscal year 2006.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2005, the cash and bank balances of the Company were approximately HK\$26 million (2004: approximately HK\$15 million). The Board believed that the Company maintained sufficient working capital for its operation.

The Company did not pledge any marketable securities for banking facilities as at 31 December 2005 (2004: Nil) nor has any bank borrowing. The gearing ratio is nil (2004: Nil).

The Company has conducted a placing exercise in May 2005 by placing 20% of the Company's shares to independent third parties. Fund of approximately HK\$2.6 million (after netting the relevant fees required) has been deposited in the custodian bank, pending appropriate investment opportunities.

The net asset value per share of the Company as at 31 December 2005 was HK\$0.3764 (2004: HK\$0.4344).

As at 31 December 2005, the Company had no material capital commitments and contingent liabilities.

EXPOSURE TO FOREIGN CURRENCY RISK

Majority of the Company's investment are denominated in HK\$ (for investment in Hong Kong equity as well as cash with bank) and US\$ which has been pegged with HK\$ (for the United States equity market). The Company has some investment in an Australian listed vehicle (approximately 10% of total asset) which is intended for long term investment purpose.

Meanwhile, the Company has not taken part in any foreign exchange trading.

The Company does not anticipate that it would devote additional resources to overseas save the additional possible investment in the PRC which currency is widely anticipated to appreciate in the near future, as such, it considers its exposure to foreign exchange fluctuation acceptable and no particular hedging strategy has been adopted.



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CAPITAL STRUCTURE

During the year, 20,600,000 shares were allotted at HK\$0.13 each on 29 April 2005, the total number of shares in issue at 31 December 2005 was 123,600,000.

STAFF

As at 31 December 2005, the Company comprised of three executive directors, two of whom are salaried, one employee, being the accountant. Total staff cost, including contributions to Mandatory Provident Fund scheme and directors' remuneration, paid during the year was approximately HK\$1.25 million. The remuneration packages for the employee and the directors are in line with the prevailing market practice and are determined on the basis of the performance and experience of each individual.

Subsequent to the year end, to have a more proper setup and to cope with the Code of Best Practice, the Company has employed

- 1) the Chief Executive Officer; and
- 2) an office assistant,

their respective salaries are also in accordance with the market practice and on the basis of the performance and experience of individual employee.

The Company has also adopted an Employee Share Option Scheme under which the Board may grant to eligible employees, including the executive directors, the officers and the employees of the Company, options to subscribe for shares in the Company for the purposes of recognising their contributions to the Company.

APPRECIATION

I would like to express my sincere thanks to all our shareholders for their continuing support, and all the directors and staff of the Company for their loyalty, commitment and diligence in the past year.

On behalf of the Board

LI Ji Ning
Chairman

Hong Kong, 25 April 2006