

CHAIRMAN'S STATEMENT

I am pleased to present the annual report for the year ended 31st December 2001.

Our consolidated profit after taxation for the year ended 31st December 2001 was US\$2,421,707. Net asset value as at 31st December 2001 was US\$77,633,388, representing US\$1.0437 per share.

The Board does not recommend the payment of a final dividend. No interim dividend was declared.

The Year Under Review

The Group achieved a stable operating profit for the year as it continued its cautious investment strategy. The 9/11 event proved a shock to the global scenario. Although China was thousands of miles away from the tragedy, it hit China's economy hard. Most enterprises, particularly the export-oriented ones, saw their operations slowed during the last quarter. Despite this event, the Chinese economy still grew by 7.3% year-on-year, down from the previous year's 8%. Although the trade surplus continued to shrink, the US\$22.5 billion surplus helped maintain a stable RMB exchange rate. A small increase in the consumer price index by 0.7% continued the upward trend.

After protracted years of negotiation, China finally joined the WTO as a full member. This implies that China will have to fully open its market to global competition thus putting the domestic economy under pressure. On the plus side, China will be a recipient of international funds and advanced technology as foreign investors line up to tap the huge potential of the China market.

The management of Zhejiang Huayu Crafts Weaving & Dyeing Co., Ltd. ("Huayu") recently launched a management buy-out and acquired the Chinese shareholders' interests in Huayu. They have agreed to acquire all the interests of the foreign investor, through which the Group made its investment in Huayu. If the deal is successfully completed, the Group will be able to write back some of the provisions previously made.

The new share issue application of Shandong Lukang Pharmaceutical Co., Ltd. ("Lukang") was approved in principle by the China Securities Regulatory Commission. It is expected that the deal will take three to six months to complete. As the issue price is likely to be above the net asset value, there will be a deemed profit from dilution for the Group.

The negotiation with the Zhongshan authorities regarding early settlement of the Group's investments in the two toll roads in Zhongshan has made further progress. The Zhongshan Municipal Government has indicated that they intend to complete the transaction in the next few months. Negotiations on the final terms are still underway.

The financial difficulties of the holding company of Shenzhen SPEC Plastics Holdings Co., Ltd. ("SPPC") have brought SPPC into potential financial problem. Due to the illegitimate and unauthorized unilateral action of the holding company, SPPC was led to provide guarantees for the bank loans of the holding company and some of its group companies. As the holding company had defaulted on loan repayments, SPPC might have to honour the contingent liabilities. SPPC is still operating normally at the moment and the holding company is actively lobbying the Shenzhen Municipal Government to approve a restructuring plan that will release SPPC from the contingent liabilities. It is reported that so far developments are pointing in a positive direction. SPPC had started the IPO orientation period since last September. If the guarantee issue can be resolved, it is likely that SPPC may be able to have an IPO by 2003.

As at 31st December 2001, the Group had long-term investments, at cost less provisions of US\$39.84 million (2000 : US\$40.31 million) and listed investments at market value of US\$1.55 million (2000 : US\$1.76 million).

For more information on our investments, please refer to the Investment Section.

Liquidity and Financial Resources

The Group continued to maintain a solid financial position in 2001. As at 31st December 2001, the Group had cash and bank balances of US\$7.54 million (2000 : US\$6.79 million) and no debt. Most of the Group's investments are located in China where the RMB exchange rate remained stable in 2001.

Future Prospects

The Group will continue to identify investment opportunities as promising companies arise. Concentration will be on market trends and preference, good growth potential and a realistic business model of the target companies. This will give ample scope for the Group to focus on a few selected value-added industries that employ new technologies.

China's joining of the WTO offers an exciting business scenario to domestic and global investors. It will have maximum impact on economic activities as the economic and market framework within China will gradually link up with the global marketplace. Unpredictable policy risks will reduce as China reaches international standards. As far as the Group's strategy is concerned, the Board intends to be more active after the toll road investments are successful settled. The current uncertain global economic conditions and the highly critical political changeover of the top Chinese leadership requires the Board to be highly selective in making new investments.

It has become clear that the China Securities Regulatory Commission will gradually liberalize stock market activities. There have been speculation that the so-called QDII — Qualified

Domestic Institutional Investors and QFII — Qualified Foreign Institutional Investors will come into being soon. If such is the case, we can expect a proliferation in capital markets in China. Greater fund mobility will help activate the market and reduce the transition to a mature market. At the same time, the government will definitely take a well-calculated step-by-step approach in the implementation process. We believe that the domestic stock markets will gradually become open for foreign investors.

Amidst anticipated competition from foreign players and an influx of direct foreign investments, there are bound to be tremendous business opportunities. As an investing holding company, it is our primary responsibility to identify investment opportunities without taking undue risks. Opportunities will undoubtedly occur and it is our intention to maintain our confidence in the future of China and its markets.

I would like to take this opportunity to thank my fellow directors, shareholders, members of the investment monitoring committee and the investment manager for their valuable contributions and support.

By Order of the Board

Lao Yuan Yi

Chairman

Hong Kong, 19th April 2002