INVESTMENTS

Name	Amount (US$ million)	Shareholding (%)	Date Invested/ Approved	Provision made (US$ million)
1) Zhejiang Huayu Crafts Weaving & Dyeing Co., Ltd.*	0.74	12.25	December 1991	0.74
2) Shenzhen SPEC Plastics Holdings Co., Ltd.	5.54	28.05	June 1992	–
3) Suzhou Universal Chain Transmission Co., Ltd. *	2.00	33.33	December 1992	0.60
4) Wuxi United Iron & Steel Co., Ltd.	7.38	25.00	July 1993	7.38
5) Dezhou Zhenhua Glass Co., Ltd. *	3.20	30.00	May 1994	3.20
6) Wuxi Tristar Iron & Steel Co., Ltd.	6.95	25.00	August 1994	6.95
7) Zhongshan Dongfu Road and Bridge Investment Co., Ltd.	9.10	35.00	March 1995	0.50
8) Shandong Lukang Pharmaceutical Co., Ltd.	9.59	17.45	April 1995	–
9) Wuxi Huate Steel Strip Co., Ltd.*	1.88	29.75	December 1995	–
10) Zhongshan Nangang Road and Bridge Co., Ltd.	6.00	29.23	February 1996	2.00
11) First Shanghai Investments Limited	13.12	21.04	September 1998	–
12) Genius Technology International Limited*	1.10	11.48	July 1999	0.94
13) Wuxi Huasheng Precision Alloy Material Co., Ltd.*	0.42	29.75	October 2000	–
	67.02			22.31

** Held indirectly by the Company*

LONG-TERM INVESTMENTS

First Shanghai Investments Ltd. ("FSIL")

During the year, FSIL successfully disposed of three investments and recorded a satisfactory return. The children's products business saw continuous growth in export sales and recorded a satisfactory result. The corporate finance division remained active throughout the year but the brokerage business was inevitably affected by the sluggish stock market in the second half year.

The Group increased its shareholding in FSIL from 20.66% to 21.04% by acquiring a total of 7.93 million shares during the year.

Shandong Lukang Pharmaceutical Co., Ltd. ("Lukang")

The overall performance of Lukang improved in 2001. Although domestic competition was intense, Lukang still achieved a higher turnover for the year, mainly due to increased export sales and expanded production capacity. The change of marketing policy, which placed more emphasis on developing direct sales channels to hospitals also provided satisfactory results and at the same time reduced advertising costs. During the year, Lukang continued to maintain its leading position in the veterinary antibiotics market in China. As a result of the increased turnover, the liquidity position of Lukang weakened during the year. Both debtors and inventory turnover days were longer than the previous year's and the gearing ratio also rose slightly.

The application to issue new shares has been approved in principle by the China Securities Regulatory Commission pending receipt of a formal document. It is expected that it will take three to six months to complete the transaction. There will be a deemed profit from dilution for the Group if the issue price is higher than the net asset value. However, the Group's interest in Lukang will also be diluted.

In 2002, Lukang will continue to strengthen its sales networks and expand its market share in new products. More effort will be put on the improvement of credit control on trade debtors. From 2002 onwards, Lukang will be subject to a standard profit tax rate of 33%, against the concessionary rate of 15% enjoyed in 2001.

Genius Technology International Ltd. ("GTI")

The performance of Shenzhen Genius Information Technology Co. Ltd. ("SGI"), which is 90% held by GTI continued to improve in 2001, though still has not reached the break-even target. Affected by several negative factors such as false profits scandals, uncertain policy regarding sale of state-owned shares and a general decline in corporate results, the PRC stock market saw a big plunge in the second half year. As a result, most of the securities companies slowed down their capital investments. This in turn adversely affected the business of SGI. Despite a 69% growth in the annual turnover, a loss was recorded for the year.

In order to cope with rapid market changes, SGI underwent a major business overhaul during the year. Several unprofitable operations were discontinued with the focus being put on expanding the existing core businesses. A management reshuffle was also deployed in the second half year.

A further provision of US$644,041was made against GTI in 2001, reflecting the change in market valuation for companies of similar nature. Together with the provision made in 2000, a total of US$944,041 have been provided against this investment, representing 85.90% of the investment cost.

Shenzhen SPEC Plastics Holdings Co., Ltd. ("SPPC")

Despite fierce market competition in the Pearl River Delta area, SPPC still managed to achieve a higher turnover and operating profit for the year. This was because of the positive contribution from the building material business and Zhuzhou Plastics Company Limited. As a strategic move, SPPC is in the process of setting up a joint venture in Dalian, which will be responsible for the development of the northeastern market in the future.

The stable performance of SPPC was however overshadowed by the cross guarantee problem triggered by its parent company. Over the years, nearly all of the bank borrowings of SPPC were secured by its holding company — Shenzhen Petrochemical Industry (Group) Co. Ltd. ("SPEC"). On a reciprocal basis, SPPC also issued guarantees for SPEC and some of its group companies. Chinese banks used to ask for a corporate guarantor for all bank loans. It was however, subsequently discovered that the amount of guarantees provided by SPPC had exceeded the reciprocal level. Accordingly, the Group requested SPPC's management to negotiate with SPEC to reduce the guarantee amount to a minimum. The contingent liabilities amount was gradually reduced since 2000. In December 2001, the Group was informed by SPPC that SPEC was in a net liabilities position and hence the guarantees issued by SPPC for SPEC would have a chance being crystallized.

Shenzhen SPEC Plastics Holdings Co., Ltd. ("SPPC") *(continued)*

As at 31 December 2001, the total contingent liabilities of SPPC exposed to SPEC and its group were around RMB243.68 million (approximately US$29.44 million), exceeding its net asset value.

The operation of SPPC remains largely unaffected at the moment. Since the guarantee problem broke, the Group has been in discussion with the management of SPPC and SPEC in the hope of securing a rescue plan. The new management of SPEC is also actively lobbying the Shenzhen Municipal Government to approve a restructuring plan that will release it from contingent liabilities. If this problem can be overcome, there is a good likelihood that SPPC will be able to conduct an IPO by 2003 as it is already half way through the mandatory one-year orientation period.

As the negotiation with the Shenzhen Municipal Government is still underway and there are as yet no signs that SPPC's operations will be halted or seriously affected, the Board decided not to make any provisions for the time being but will monitor the situation closely as negotiations proceed. The Board, however, will consider making a provision if there is no break-through in the negotiation for a protracted period or there are signs that SPPC as a going concern or its normal operations is in jeopardy.

Suzhou Universal Chain Transmission Co., Ltd. ("SUCTC")

The domestic industrial chain market continued to be sluggish in 2001. Despite falling products price, annual turnover was still higher than the previous year's, mainly due to an increased sales volume. In the first half, SUCTC succeeded in securing more overseas orders for their new products and recorded a strong growth in export sales. The encouraging trend was however halted by the 911 incident after which overseas buyers became extremely cautious. Despite this, annual export sales still recorded a growth of more than 30% over the previous year. SUCTC achieved a higher profit in 2001.

In view of market changes, SUCTC plans to develop more new products for the domestic market in 2002. It will also adjust its sales policy targeting overseas markets by placing more emphasis on the European markets.

Wuxi Huate Steel Strip Co., Ltd. ("Huate")

In 2001, Huate faced direct competition from several new steel plants in the region. As they competed for market share, Huate had to offer discounted price and favourable credit terms to customers in an attempt to keep their loyalty. Although Huate's products were of better quality and their supply more stable, profit margins were inevitably squeezed and debtors ageing deteriorated. As a result, a substantial drop in both turnover and profit was recorded for the year.

In anticipation of continued market competition, the board of Huate had made a decision a year ago to develop new products made of alloy metal and stainless steel. During the year, a new production plant was built and new production lines were installed with a test run. A small quantity of stainless steel products was also sold to test the market and received positive responses. In 2002, Huate will expedite the development process in the hope of achieving full scale commercial production of the new products in the second half of the year.

At the end of 2001, Huate successfully obtained the status of "Advanced Technology Enterprise" and so continues to enjoy a reduced profit tax rate of 12% for another 3 years up to 2004.

Wuxi Huasheng Precision Alloy Material Co., Ltd. ("Huasheng")

Huasheng was established by the same group of shareholders of Huate to carry out Huate's new business in stainless steel and alloy material manufacturing. The initial purpose of setting up Huasheng was to take advantage of the preferential tax treatment extended to new enterprises. The total registered capital of Huasheng is US$2.5 million of which the Group will contribute US$0.74 million for a 29.75% interest. At the end of 2001, an aggregate of US$1.20 million had been contributed by all the shareholders using the dividends received from Huate.

During the year, Huasheng was in the process of setting up new production equipment and supporting facilities. In order to fully utilize the tax differential between Huate and Huasheng, it is planned that most of the trial run operation will be conducted at Huate until the operation of the new business becomes profitable.

Zhongshan Dongfu Road and Bridge Investment Co., Ltd. ("Dongfu")

A higher growth in toll revenue was recorded in 2001, reflecting increased traffic flow diverted from the 105 National Highway nearby. The National Highway had been undergoing major renovation work during the year.

Zhongshan Dongfu Road and Bridge Investment Co., Ltd. ("Dongfu") *(continued)*

The Company is guaranteed a minimum return on this investment. Due to the delay in payment, a provision of US$2.37 million had been made in 1998 for the outstanding guaranteed returns. In 1999, a further provision of US$871,311 and US$500,000 had been made for the outstanding amortisation returns and for diminution in value respectively. Throughout the year, the Company received part of the monthly toll road revenue as a regular payment.

Discussion for early settlement of the investment continued with slow progress during the year. The restructuring proposal was completed but still needed to go through a tedious approval process by the relevant government authorities. While awaiting the formal notice of approval, the Company has started discussions with the PRC shareholders about the detailed settlement terms. It is hoped that the Company can recoup the original investment plus some nominal interest.

Zhongshan Nangang Road and Bridge Co., Ltd. ("Nangang")

A higher growth in toll revenue was recorded in 2001, reflecting increased traffic flow diverted from the 105 National Highway nearby. The National Highway had been undergoing major renovation work during the year.

The Company is guaranteed a minimum return on this investment. Due to the delay in payment, a provision of US$1.80 million had been made in 1998 for the outstanding guaranteed returns. In 1999, a further provision of US$639,948 and US$2 million had been made for the outstanding amortisation returns and for diminution in value respectively. During the year, the Company received part of the monthly toll road revenue as a regular payment.

Discussion for early settlement of the investment continued with slow progress during the year. The restructuring proposal was completed but still needed to go through a tedious approval process by the relevant government authorities. While awaiting the formal notice of approval, the Company has started discussions with the PRC shareholders about the detailed settlement terms. It is hoped that the Company can recoup the original investment plus some nominal interest.

INVESTMENTS FOR WHICH FULL PROVISIONS HAD BEEN MADE

Dezhou Zhenhua Glass Co., Ltd. ("Zhenhua")

The traditional sheet glass market of China continued to shrink in 2001, leading to severe price competition. The situation was made worse by unprecedented competition from float glass manufacturers. Most of the market participants incurred heavy losses and some competitors in the region even stopped production. Despite relentless efforts in adjusting products mix and adopting aggressive cost-cutting measures, a loss was still recorded for the year.

In consideration of the deteriorating market condition, Zhenhua is now studying different alternatives to improve the situation. One of the proposals is the addition of a new production line for patterned glass. According to different research reports, there will be a growing demand in China for processed glass products in the coming years.

In view of the uncertain future for the sheet glass industry, a full provision of US$3.2 million was made against this investment in 1998.

Sanshui Yoright Plastic and Electrical Co., Ltd. ("Yoright")

According to the agreement reached with Keep Mount (Holdings) Limited ("Keep Mount"), the parent company of Grandbliss Development Limited through which the investment in Yoright was made, Keep Mount would repay the Company's investment cost plus interest over a period of three years ended 31 December 1998. As at 31 December 1999, a total of US$2.78 million had been recovered. After a new settlement agreeement was signed in October 2000, Ultragrace Limited ("Ultragrace") which was a related company of Keep Mount and the official window company of the Sanshui Municipal Government in Hong Kong, agreed to pay the outstanding amount owed by Keep Mount over 12 instalments and a further amount of HK$200,000 (approximately US$25,650) was paid to the Company. Up to the end of 2000, a total of US$2.81 million had been receieved from Keep Mount and Ultragrace.

Despite unstinting efforts made in 2001, the Company failed to contact any responsible personnel of Ultragrace and no payment was received during the year. In view of the remote chance for settlement, the case has been referred to the lawyers who will advise the Company of appropriate actions to be taken against Ultragrace.

Wuxi Tristar Iron & Steel Co., Ltd. ("Tristar")

According to a lease agreement signed in December 1999, the whole production plant and supporting facilities of Tristar have been leased to a local steel maker. From 2001 onwards, Tristar would receive annual lease fee starting from RMB5 million (approximately US$0.6 million) and gradually increasing to RMB11 million (US$1.3 million) over a lease period of 10 years.

Wuxi Tristar Iron & Steel Co., Ltd. ("Tristar") *(continued)*

A lease fee of RMB1.24 million (approximately US$149,380), being a quarter of the annual lease fee was received by Tristar in 2001, as the lessee only started commercial production in the last quarter. According to the PRC company law, the lease income will be applied to set off the accumulated losses of Tristar first. A full provision of US$6.95 million had been made against this investment after two provisions of US$3.475million each were provided in 1997 and 1998 respectively.

Wuxi United Iron & Steel Co., Ltd. ("United")

After the completion of a major modification work in 2000, production efficiency was improved. Production remained at full gear most of the year and total production volume had nearly reached its maximum designed capacity. United also benefited from a rebate for high electricity consumption and achieved an improved result for the whole year, reporting an increase of 77% in net profit over the previous year.

The domestic steel market deteriorated rapidly towards the year-end when the average steel price dropped to a record low in 10 years. The change of tax refund policy on scrap steel also increased the burden of United and the industry. In 2002, United will adopt more stringent cost-cutting measures and develop more steel products with different specifications in the hope of maintaining a profitable growth.

Due to substantial accumulated losses, a full provision of US$7.38 million had been made against this investment in 1998. Although United had returned to profitable for the last two years and the accumulated losses have been substantially reduced, the Group is not prepared to write back any provision unless all the accumulated losses have been set off.

Zhejiang Huayu Crafts Weaving & Dyeing Co., Ltd. ("Huayu")

In 2001, competition in the synthetic fabrics market became so intense most of the manufacturers in the region suffered from heavy losses. Several competitors were even exited the market. Huayu was no exception and recorded a substantial loss for the year. In view of the unclear future, a full provision of US$0.74 million had been made against this investment in 1998.

During the year, the Company started discussion with the management of Huayu about disposing of its shares to the management. After an organizational restructuring in 2001, the existing management of Huayu became the largest shareholder of both Huayu and its holding company. The disposal proposal also received positive response from the management who wanted to have total control. A board meeting was held after the year-end in which the proposal was discussed and agreed in principle. The Company will expedite the negotiation with the management in the hope of completing the disposal in 2002.

LISTED SHARES

During the year, the Company recorded a profit on disposal of US$113,268. The shares held at 31 December 2001 have a carrying value of US$1,966,440 and a market value of US$1,545,957. An unrealised loss of US$420,483 was included in the profit and loss account for the year.