

I am pleased to present the annual report for the year ended 31st December 2002.

The Company's consolidated net profit for the year ended 31st December 2002 was US\$3,583,079. Net asset value as at 31st December 2002 was US\$81,385,252, representing US\$1.0941 per share.

### The Year under Review

2002 marked another year of turbulence and difficulties for the financial markets of the world: accounting scandals at some of the once most admired companies, like Enron and Worldcom continued to shake investor confidence; world economies continued to suffer from the massive over-build of past decade and experienced painful adjustment.

Even under such extraordinary circumstances, the Company still achieved a reasonable result, showing a net profit of US\$3.58 million, a 48% increase over that of 2001.

One of the main contributors last year was Zhongshan Nangang Road and Bridge Co., Ltd.. With the support of Zhongshan municipal authority, the Company successfully completed its divestment in December 2002 and received RMB57.3 million (equivalent of US\$6.92 million). As a result, the Company was able to record a profit of US\$4.7 million on disposal.

The performance of First Shanghai Investments Limited ("FSIL") in 2002 was affected by the decrease in gain on disposal of long term investments and the loss incurred in securities investment. With a turbulent external environment, slow economic growth and discouraging investment sentiments prevailing in the global markets, the average daily turnover in the Hong Kong stock market shrank by 19% from HK\$8.2 billion (approximately US\$1.1 billion) in 2001 to HK\$6.65 billion (approximately US\$0.85 billion) in 2002. However, its corporate finance division remained active and still managed to increase its profit. The performance of FSIL's joint ventures in China improved in 2002 in line with the economic growth.

Shandong Lukang Pharmaceutical Co., Ltd. recorded a strong profit growth in 2002, mainly as a combined result of successful reduction of production cost, timely adjustment of the product mix and increase of export sales.

In 2002, the Company made an investment of US\$1,200,000 in Communication Over The Air, Inc. ("COTA"), a leading mobile game and content provider. The Company was the single largest financial investor in a consortium of US\$3,000,000 which included Draper Fisher, one of the top tier venture capital funds in the U.S., and two other Hong Kong-based investment companies. COTA has performed well and achieved net profitability after few months in operation. It expects to reach a much higher profit level in 2003 as mobile game and content business in China has started to take off.

In January 2003, the Company was granted a judgement by a PRC court in Shenzhen in favor of the Company against Shenzhen Petrochemical Industry (Group) Co., Ltd. ("SPEC"), whereby the latter was ordered to pay the Company a total sum of RMB71.4 million (approximately US\$8.6 million). A settlement agreement was reached on 28th March 2003 whereby SPEC agreed to transfer its 90.57% equity interests in Shenzhen SPEC Biopharmaceutical Industry Co., Ltd. ("BCL") together with the shareholder's loans of RMB9 million granted by SPEC to BCL and 5% equity interests in Shenzhen Electra Liangyu Air-conditioning Company Limited ("The Air-Conditioning Company"). Upon completion, the Company will transfer its 28.05% ownership of Shenzhen SPEC Plastics Holdings Co., Ltd. ("SPPC") to SPEC. As a result, the Company has applied to the Stock Exchange of Hong Kong Limited ("SEHK") for a waiver from strict compliance with Rule 21.04 (3) (a) of the Rules Governing the Listing of Securities on the SEHK (the "Listing Rules") in respect of the proposed transfer of 90.57% interest in BCL from SPEC to the Company as a part of the settlement agreement. On 7th April 2003, the SEHK did not grant the waiver. Currently, we are actively seeking an amicable solution. A provision of US\$3.6 million has been made in 2002 to take into account the difference in the Group's carrying value of investment in SPPC and the recoverable value of assets of BCL and The Air-Conditioning Company, subject to a satisfactory resolution of the waiver as stated above.

In order to secure the transfer, the Company had applied to the Shenzhen Court for freezing SPEC's interests in the two companies. As a guarantee for such application, the Company's interest in SPPC has also been frozen by the same court in December 2002.

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As at 31st December 2002, the Company and its subsidiaries had long-term investments, at cost less provisions of US\$33.30 million (2001: US\$39.84 million) and listed investments at market value of US\$1.50 million (2001: US\$1.55 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 2002. As at 31st December 2002, the Group had cash and bank balances of US\$14.11 million (2001: US\$7.54 million), of which US\$7.61 million have been held in the RMB equivalent in form of the PRC banks' deposit (2001: Nil) held in Mainland China, and no debt. RMB is not a freely convertible currency. Most of the Group's investments are located in Mainland China where the RMB exchange rate remained stable in 2002.

### Future Prospects

The Company looks forward to a better year in 2003.

Since latter part of 2002, the Company has decided to proceed aggressively with its restructuring plan by exiting certain industries where competition has been intense and growth prospects are limited. This strategy is currently being executed.

At the same time, the Company will capitalize on China's rising wealth and concentrate on those industries with above-average growth potential.

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

By Order of the Board

**Lao Yuan Yi**

*Chairman*

Hong Kong, 11th April 2003