

Chairman's Statement

I am pleased to present the annual report for the year ended 31st December 2003.

The Company's consolidated net profit for the year ended 31st December 2003 was US\$9,847,932. Net asset value as at 31st December 2003 was US\$91,057,053 representing US\$1.2242 per share.

The Year under Review

As predicted in our 2002 annual report, the Company achieved impressive results as a result of divestments in 2003.

The divestments of 25% equity interests in both Wuxi United Iron & Steel Co., Ltd. and Wuxi Tristar Iron & Steel Co., Ltd. have recovered approximately US\$2.8 million for the Group, adding the same amount to the Group's net profit as a result of the disposals.

The divestment of Zhongshan Dongfu Road and Bridge Investment Co., Ltd. enabled the Group to raise approximately US\$9.3 million cash in RMB equivalent, while at the same time adding US\$3.3 million to the Group's net profit also as a result of the disposal.

The divestments of Wuxi Huate Steel Strip Co., Ltd. and Wuxi Huasheng Precision Alloy Material Co., Ltd. together contributed additional US\$2.1 million in cash in RMB equivalent.

Apart from the divestments, performance of First Shanghai Investments Ltd., both of its corporate finance and stockbroking services recorded a strong revenue growth during the year.

KongZhong Corporation (formerly known as Communication Over The Air Inc.) experienced impressive growth in both revenue and profit, becoming one of China's leading wireless value-added service providers in 2003.

Shandong Lukang Pharmaceutical Co., Ltd. ("Lukang") successfully completed its new share issue, raising RMB360 million (approximately US\$43.5 million), at the same time adding US\$3.4 million to the Group's net profit as a result of deemed profit on the new share issue. Because of the dilution of Group's equity interest in Lukang from 17.45% to 15.46% as a result of the new share issue, the Group has changed the accounting treatment for Lukang from equity method to cost method starting August 2003.

The outbreak of SARS and the subsequent rebound took many people by surprise. China's economy showed exceptional resilience in the face of adversity with the economy growing by 9.1%. Foreign exchange reserve rose sharply to over US\$400 billion, a 40% increase over 2002. Foreign direct investment by contract amounted to US\$115.07 billion, a 39.03% increase over 2002.

Chairman's Statement

The Year under Review *(Continued)*

As 31st December 2003, the Group had long-term investments, at cost less provisions, of US\$25.09 million (2002 : US\$33.30 million) and listed investments at market value of US\$0.06 million (2002 : US\$1.50 million).

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

Liquidity and Financial Resources

The Group continued to maintain a healthy financial position in 2003. As at 31st December 2003, the Group had cash and bank balances of US\$28.97 million (2002 : US\$14.11 million), of which US\$18.90 million (2002: US\$7.61 million) were held in the RMB equivalent in the form of the PRC banks deposit held in the Mainland China, and no debt. Most of the Group's investments are located in the Mainland China. RMB is not a freely convertible currency and the RMB exchange rate remained stable in 2003.

Future Prospects

While the Company is satisfied that the restructuring plan set out in late 2002 was accomplished in 2003, better days may still be ahead in 2004. The Company will continue to concentrate on investing in growth, particularly in technologies and technology-related service areas and promising life science and bio-tech companies, so as to achieve above average rate of return in the future.

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, 13th April 2004