

Investments

Name	Amount (US\$ million)	Shareholding (%)	Date Invested/ Approved	Provision made (US\$ million)
(1) Suzhou Universal Chain Transmission Co., Ltd. *	1.68	30.00	December 1992	1.18
(2) Dezhou Zhenhua Glass Co., Ltd. *	3.20	30.00	May 1994	3.20
(3) Shandong Lukang Pharmaceutical Co., Ltd.	9.59	15.46	April 1995	—
(4) First Shanghai Investments Limited	13.80	21.15	September 1998	—
(5) KongZhong Corporation* (formerly known as Communication Over The Air Inc.)	1.20	13.33	October 2002	—
	<u>29.47</u>			<u>4.38</u>

* Held indirectly by the Company

Investments

Long-term Investments

First Shanghai Investments Ltd. ("FSIL")

FSIL delivered a satisfactory result for the whole year of 2003, despite the SARS outbreak in the first half. The increase mainly resulted from improved performance from its corporate finance and stockbroking business. FSIL completed a total of 4 IPO sponsorships and participated in a number of underwriting activities during the year.

FSIL's child products division also reported a satisfactory performance with a stable growth in export sales. Benefiting from a prosperous auto industry in the PRC, FSIL also recorded rapid growth for its motor vehicle meter and components business. Other divisions of FSIL remained stable during the year, except for its container transportation business which suffered from a severe competition during the year.

The property project located in Shanghai Zhangjiang High-Tech Park progressed smoothly and completion is expected in late 2004. The progress of its hotel project in Kunshan Economy & Technology Development District was also on schedule.

As at 31st December 2003, the share of net asset value of FSIL by the Group amounted to US\$28.96 million, representing 31.80% of the net asset value of the Group.

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

Despite a 45% year-on-year increase for the first half year's result, Lukang experienced a heavy downturn in the second half year and posted a disappointing overall result for 2003. Although it was widely expected that there would be a downward adjustment in the penicillin products price following expansion of the total production capacity in the industry, the magnitude of the adjustment incurred mainly in the second half year was not expected. Apart from the substantial price drop, Lukang also suffered from the inflated cost of raw material, and coupled with a unrealized exchange losses resulting from a Japanese Yen bank loan, Lukang reported a net profit of RMB54 million (approximately US\$6.5 million), representing a reduction of 44% over that of the previous year.

As the adverse conditions are expected to continue in 2004, Lukang has adopted different measures to avoid further deterioration of the situation such as re-adjusting its products mix, shifting more resources in exploring new overseas markets and further streamlining the existing organization.

Long-term Investments *(Continued)*

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

During the year, Lukang completed the issue of new shares and raised a total of RMB360 million (approximately US\$43.5 million). The Group's equity interest in Lukang was diluted from 17.45% to 15.46% and a deemed profit on dilution of interests in Lukang of US\$3.4 million was recorded as a result. In compliance with the revised regulations issued by the China Securities Regulatory Commission, total number of directors were also increased from 11 to 13 after 2 more independent directors joined Lukang's board. In view of the above changes, the Board considered that it would be more appropriate to change the accounting treatment of Lukang from equity method to cost method as the latter could more reflect the situation changes in Lukang.

As at 31st December 2003, Lukang was re-classified by the Group as other investment with carrying value stated at US\$29.40 million, representing 32.28% of the net asset value of the Group.

KongZhong Corporation ("KongZhong")

(Previously known as Communication Over The Air Inc.)

Benefited from a rapid growing telecommunication industry in the PRC, KongZhong continued to report satisfactory performance in 2003 and achieved a result better than the original budget.

Despite more and more competitors entered this lucrative market during the year, KongZhong capitalized on its strong technical background, strategic relationship with China Mobile and first mover advantage and successfully achieved a leading position in providing 2.5G services such as MMS and GPRS services. As a result, KongZhong reported a net profitable result and a net cash inflow for 2003. In order to consolidate its leading position, KongZhong will further expand its strategic alliance with different content providers in both the PRC and overseas.

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

The settlement agreement signed with Shenzhen Petrochemical Industry (Group) Co. Ltd. ("SPEC"), holding company of SPPC was largely enforced during the year after SPEC had transferred two assets to the Group in accordance with the court judgment. The two assets, being 5% of Shenzhen Electra Air-conditioning Company Ltd. (the "Air-conditioning Company") and 90.57% of Shenzhen SPEC Biopharmaceutical Industry Company Ltd. ("BCL") were subsequently sold to two different independent buyers at a consideration of US\$1.07 million and US\$1.0 million respectively. The disposal of 90.57% equity interest in BCL was arranged through the sale of a wholly-owned subsidiary of the Group so that the Company will not be in breach of the Listing Rules of 21.04 (3)(a).

Investments

Long-term Investments *(Continued)*

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

The disposal proceeds of the Air-conditioning Company were received in full in October 2003. The Group was unable to collect the first installment of US\$0.33 million of the disposal proceeds of BCL, which became overdue in February 2004. The buyer of BCL requested for a substantial concession on the purchase consideration subsequently by claiming that some off-balance sheet liabilities of BCL had been uncovered. The Group will look into the matter carefully and will further negotiate with the buyer. Despite this, a provision of US\$0.5 million was made as a matter of prudence.

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

Suzhou Chain fell victim of the heated steel industry during 2003 as its profit margin was largely eroded by the rising cost of raw material. And as competition in the industrial chain industry remained intense, it could hardly transfer out the negative price variance to its customers. During the year, Suzhou Chain adopted re-adjustment of its products mix on one hand and on the other hand it ceased production of certain low margin products. Benefited from a strong export sales, Suzhou Chain achieved a better result than that of 2002 in both turnover and net profit margin.

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

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

The Group had completed the disposal of Huate and Huasheng in 2003 after approval had been obtained from the relevant authorities in August 2003. The disposal proceeds of RMB17 million (approximately US\$2.05 million) was received by the Group in full in July 2003.

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

After repeated efforts, the Group completed the divestment of Dongfu in April 2003, after a total of RMB76.9 million (approximately US\$9.3 million) was received by the Group through its wholly-owned subsidiary in the PRC. The RMB proceeds will be converted into foreign currency after approval is obtained from the relevant authorities. As a result of the disposal, a profit of US\$3.3 million was recorded in the accounts.

Investments

Investments for which full provisions had been made

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

Although the overall glass market benefited from a prosperous property market and recorded gradual increase in average selling price, the positive effective was largely set off by the inflated cost of production such as coal and electricity charges. Zhenhua continued to report loss in 2003 but the loss was substantially reduced from that of the previous year.

A full provision of US\$3.2 million was made against this investment in 1998 in view of the dim future for the sheet glass industry.

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

The Group successfully signed a sale and purchase agreement with an independent buyer in October 2003, who agreed to acquire the 25% equity interests at a consideration of HK\$12 million (approximately US\$1.54 million), payable in 3 installments from October 2003 to October 2004. A share charge agreement was also signed pursuant to which the equity interests would be charged to the Group before the consideration was fully settled.

The first installment of HK\$4.80 million (approximately US\$0.62 million) has been received in full by the Group on time. Registration of the share charge is in the process as it takes time to obtain approval from relevant authorities. A profit on disposal of US\$1.54 million was recorded in the accounts.

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

The Group successfully signed a sale and purchase agreement with an independent buyer in October 2003, who agreed to acquire the 25% equity interests at a consideration of HK\$10 million (approximately US\$1.28 million) payable in 4 installments from October 2003 to April 2005. A share charge agreement was also signed pursuant to which the equity interests would be charged to the Group before the consideration was fully settled.

The first installment of HK\$4.0 million (approximately US\$0.51 million) has been received in full by the Group on time. Registration of the share charge is in the process as it takes time to obtain approval from relevant authorities. A profit on disposal of US\$1.28 million was recorded in the accounts.

Listed Shares

During the year, the Company recorded a profit on disposal of US\$637,948. The shares held at 31st December 2003 had a carrying value of US\$28,850 and a market value of US\$59,888. An unrealized gain of US\$31,038 was included in the profit and loss account for the year.