

I am pleased to present the annual report for the year ended 31st December 2004.

The Company's consolidated net profit for the year ended 31st December 2004 was US\$22,059,025 and consolidated net asset value as at 31st December 2004 was US\$113,075,277 representing US\$1.5202 per share.

Business Review

During the year under review, the Company disposed of part of its investment in KongZhong Corporation ("KongZhong") at its initial public offering and recorded a disposal profit of US\$3.24 million. An unrealized gain of US\$29.03 million resulted from the reclassification of KongZhong to other investments which was stated at market value at the year end. Together with an impairment loss of US\$9.77 million provided for Shandong Lukang Pharmaceutical Co., Ltd. ("Lukang"), the Company achieved a net profit of US\$22.06 million, representing a year-on-year increase of 124%.

China's economy continued to grow at high speed in 2004 and its gross domestic product reached RMB13,651 billion representing a year-on-year growth of 9.5%. It remained an attractive country for foreign investments with contracted and actual utilized amount of foreign capital climbing 33.4% and 13.3% from the previous year. Despite various austerity measures such as control on bank credit and land supply, fixed assets investments only slowed down slightly and still reported a year-on-year increase of 25.8%. Although the consumer price index rose by 3.9%, price of raw material, fuel and power all increased by more than 10% over that of the previous year. Most of the Company's investee companies in the manufacturing industry fell victim to higher production costs and unstable electricity supply and reported an operating loss for the year under review.

Due to severe competition and inflated productions costs, Lukang reported a substantial loss for 2004. During the year, Lukang suspended several production departments in order to facilitate the change of products mix. Contribution from the new products was however less than budget as more marketing efforts were required. In view of the substantial loss and the unfavorable market conditions faced by the antibiotics industry, an impairment loss of US\$9.77 million was made against Lukang as at the end of 2004.

While some of the traditional manufacturing industries were adversely affected by the overheated economy, certain new industries such as internet and telecommunication continued to grow rapidly. In July 2004, KongZhong has successfully completed its initial public offering in the Nasdaq National Market and raised a total of US\$80 million. The Company disposed of part of the shares in KongZhong and realized a profit of US\$3.24 million. After the disposal of 367,937 American Depositary Shares ("ADS"), the Company owned 3,132,063 ADS at the year end, which was subject to a lock-up period of 180 days after 8th July 2004.

During the year, First Shanghai Investments Ltd. recorded stable growth in its stockbroking and corporate finance business. The manufacturing business however suffered from increased commodity price and profit margin was squeezed as a result. Due to a provision made for a trade debt, performance of its child products was negatively affected.

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

Liquidity and Financial Resources

The financial position of the Group remained sound and healthy during the year. As at 31st December 2004, the Group had cash and bank balances of US\$33.50 million (2003: US\$28.97 million), of which US\$19.13 million (2003: US\$18.90 million) were held in RMB equivalent in form of PRC banks' deposit held in Chinese Mainland, and no debt. Most of the Group's investments are located in Chinese Mainland. RMB is not a freely convertible currency and the RMB exchange rate remained stable during the year.

Employees

The Company is managed by China Assets Investment Management Limited. A qualified accountant was employed by the Company pursuant to the requirement of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules"). In addition to basic salary payments, other benefits include mandatory provident funds scheme and discretionary employee shares option scheme.

Prospects

After the Company completed the disposal of its 30% equity interests in Suzhou Universal Chain Transmission Co., Ltd. in March 2005, the Company had largely achieved its restructuring strategy from investments in certain industries with intense competition and limited growth prospects. The Company will continue to look for opportunities to dispose of its interests in Dezhou Zhenhua Glass Co., Ltd. for which a full provision had already been provided.

During the year, the PRC government adopted various austerity measures to cool down credit growth. Despite the credit-tightening policies, overall private residential prices rose more than 10% in 2004 and demand for housing in prime cities remained strong. On 18th January 2005, the Company announced a proposed investment of US\$13.50 million in a property fund, which constituted a major transaction of the Company and shareholders approval was required under the Listing Rules.

CITIC Capital China Property Investment Fund, L.P. (the "Fund")

The Fund is an exempted limited partnership formed in December 2004 for the purpose of investment in property projects in the PRC. The minimum Fund size at the initial closing is US\$45 million and will in no event exceed US\$100 million subsequently. The management of the Fund will be the responsibility of the general partner and the investment manager of the Fund, which is a subsidiary of CITIC Capital Investment Holdings Limited. The Company believes that the investment in the Fund will allow the Company to participate in the robust PRC real estate industry. The investment in the Fund was approved by the shareholders in the extraordinary general meeting held on 14th March 2005 and an amount of US\$13.50 million was contributed to the Fund on 22nd March 2005.

Please refer to the announcement dated 18th January 2005 and the circular dated 22nd February 2005 for more information of the Fund.

Possible disposal of shares in KongZhong

On 23rd February 2005, an announcement was made by the Company in relation to the possible disposal of its remaining shares in KongZhong. Although no contracts have been entered into by the Company, the Company considers that it is necessary to obtain the shareholders' approval first so that any disposal can be executed more expeditiously when the market conditions are favourable. A circular in relation to the proposed disposal will be dispatched to the shareholders and an extraordinary general meeting will be convened soon.

Lastly, I would like to express my thanks to my fellow directors, shareholders, members of the investment committee and the investment manager for their contributions and continued support.

By Order of the Board

Lao Yuan Yi

Chairman

Hong Kong, 18th April 2005