Chairman's Statement

I am pleased to present the annual report for the year ended 31st December 2005.

The Company's consolidated net profit for the year ended 31st December 2005 was US$13.87 million and consolidated net asset value as at 31st December 2005 was US$122.33 million, representing US$1.6442 per share.

BUSINESS REVIEW

During the year under review, the Company implemented the resolution approved by the shareholders of the Company on 30th May 2005 and disposed of part of its investments in KongZhong Corporation ("KongZhong"). A disposal gain of US$2.30 million was recorded and an unrealised gain of US$6.40 million was booked at 31st December 2005, representing difference of the market value of KongZhong's American Depositary Shares ("ADS") between 31st December 2004 and 2005.

In March, the Company invested a total of US$13.50 million in CITIC Capital China Property Investment Fund, L.P. (the "Property Fund") with an aim to achieve long term capital appreciation by developing a portfolio of investments in real estate and related investments in China. The Property Fund swiftly completed an acquisition of a property complex in Shanghai prime area soon after its set up when the Shanghai property market became unstable after a series of macro-economic policies. The office market stabilized afterwards and the property complex was valued with an appreciation of approximately 20% over its acquisition cost by an independent property appraiser at the year end.

Shandong Lukang Pharmaceutical Co., Ltd. ("Lukang") continued to suffer from intense competition and excess production capacity in 2005. In order to stop further losses, Lukang adopted a series of control measures which included a revamp of the sales and marketing system and change of the management team in August. Lukang reported a profit of RMB4.98 million (approximately US$0.62 million) for 2005, mainly due to an unrealised exchange gain.

Regarding the share reform of Lukang, the Company had been maintaining a regular dialogue with its largest shareholder — Shandong Lukang Pharmaceutical Group Company Limited ("Lukang Group") about different alternatives for complying with the share reform. In December, Lukang announced that all of the legal person shares held by Lukang Group in Lukang were frozen by the court after a loan dispute between Lukang Group and a local bank. A fair value adjustment loss of US$1.07 million was further provided against Lukang as at the year end, in addition to US$2.62 million already provided in the interim accounts.

First Shanghai Investments Limited ("FSIL") reported a profit of HK$76.32 million (approximately US$9.78 million) for 2005, representing a drop of approximately 5% over that of the previous year. During the year, performance of the corporate finance division was negatively affected by the slowdown of fund raising activities in the first half of 2005 after certain new policies announced by the State Administration of Foreign Exchange. On 7th November 2005, FSIL announced that it had entered into agreements to dispose of its entire interests in Geoby International Holdings Limited which was mainly engaged in production and sale of child products such as strollers and bicycles in China. If the disposal is completed successfully, FSIL is able to record a disposal profit of approximately HK$81.7 million (approximately US$10.54 million) (unaudited) which will be accounted for in the accounts of 2006.

During the year, the Company acquired a total of 14.1 million B-shares in Konka Group Company Limited ("Konka") at a total consideration of approximately US$6.15 million. Konka is one of the market leaders in the TV manufacturing industry in China, with its A and B shares listed on the Shenzhen Stock Exchange. Due to the lacklustre performance of its mobile phone business, Konka reported a 39% drop in net profit to RMB34.85 million for the first three quarters of 2005. As China started to roll out digital TV broadcasting, it was expected demand for high definition TV and digital TV related equipment would be huge and Konka is well positioned to benefit from it. Affected by the across-the-board drop of the B-share market, Konka's share price fell in the second half year and a fair value loss of approximately US$2.47 million was transferred to investment revaluation reserve.

During the year, the Company also invested US$0.80 million and RMB20 million (approximately US$2.48 million) in Mindray International Holdings Limited ("Mindray") and a lottery technology company in China (the "Lottery Company") respectively. Mindray is engaged in the manufacture and sale of medical equipment while the Lottery Company is engaged in providing lottery related technology and services in several cities in China. Total commitment for the Lottery Company is RMB65 million (approximately US$8.05 million) of which the Company had paid the first instalment of RMB20 million (approximately US$2.48 million) in September. Since the shares transfers of both Mindray and the Lottery Company have not been completed, the considerations made were classified as other receivables and prepayments in the consolidated balance sheet as at the end of 2005.

China's economy maintained its stellar growth last year, expanding 9.9% and recording the gross domestic product of RMB18,232 billion in 2005. Fixed assets investment grew by 25.7% over the previous year and higher growth was found in the sectors of coal mining, electric power and heat power and transportation including railway transport and transport equipment. The consumer price index rose by 1.8% over the previous year. The purchasing prices for raw materials, fuels and power went up by 8.3%, showing a slowdown from the previous year because of successful efforts of the Chinese government in curbing the overheated economy. The foreign direct investment actually utilized fell 0.5% to US$60.3 billion, partly due to the new policy announced by the Administration of Foreign Exchange in early 2005 which affected the offshore reorganization of Chinese enterprises.

China surprised the market in July 2005 when it reformed a decade-old exchange rate regime allowing its currency Renminbi to appreciate by 2% against the U.S. Dollar and linking it to a basket of currencies instead of the U.S. Dollar alone. Although the Chinese government ruled out a further one-off revaluation of Renminbi, it still faced mounting international pressure to allow the Renminbi to further appreciate and speculative capital continued to flow in hoping for further appreciation of the Renminbi.

Although it is widely believed that Renminbi will not become fully convertible very soon, the overall investment environment continues to improve in China. The Company maintains its confidence in the long term prospect for China and believes it can benefit by taking a consistent and prudent investment approach.

For more information on our investments, please refer to the Investments section.

LIQUIDITY AND FINANCIAL RESOURCES

The financial position of the Group remained sound and healthy during the year. As at 31st December 2005, the Group had cash and cash equivalents of US$15.89 million (2004: US$33.50 million), of which US$5.57 million (2004: US$19.13 million) were held in RMB equivalent in form of the 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 relatively 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. In addition to basic salary payments, other benefits include mandatory provident funds scheme and discretionary employee share option scheme.

PROSPECTS

On 14th March 2006, FSIL announced that it entered into agreements for disposal of its property situated in Shanghai Zhangjiang Hi-Tech Park, China. The property is classified as work-in-progress in the 2005 accounts of FSIL. Upon completion of the disposal, FSIL is expected to record a gain on disposal of approximately HK$71.5 million (approximately US$9.22 million) (unaudited).

On 10th April 2006, the Company announced that it would seek approval from the shareholders of the Company for the possible disposal of the remaining shares in KongZhong within a period of 24 months. The Company believes that the pre-approval, if granted, will allow more flexibility for the Company to effect the possible disposal expeditiously when market conditions become favourable. A circular will be dispatched to the shareholders and an extraordinary general meeting will be convened soon.

The price of KongZhong's ADS remained strong after the year end and reached a 52-week highest of US$15.15 per ADS in January 2006. The Company will closely monitor the market situation so as to bring the disposal resolution to a satisfactory conclusion. With the new funding from the disposal, we believe that the Company is well positioned to participate in more challenging investment opportunities in the coming years.

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

By Order of the Board
Lao Yuan Yi
Chairman

Hong Kong, 21st April 2006