Chairman's Statement

I am pleased to present the annual report for the year ended 31 December 2006.

The Company's consolidated net profit for the year ended 31 December 2006 was US$3.59 million and consolidated net asset value as at 31 December 2006 was US$139.69 million, representing US$1.8449 per share.

Business Review

During the year under review, the Company successfully completed several new investments while continuing its divestment on part of its listed investments portfolio. The decrease of profit was mainly due to the drop of share market price of KongZhong Corporation ("KongZhong") from US$12.50 as at 31 December 2005 to US$9.76 per American Depositary Shares ("ADS") as at 31 December 2006. Accordingly, an unrealised fair value loss of US$3.9 million was recorded at 31 December 2006. The Company disposed of a total of 0.8 million KongZhong's ADS at an average price of US$10.60 per ADS during the year. A disposal loss of US$1.5 million was recorded reflecting the difference between the selling price and the market closing price of KongZhong's ADS as at 31 December 2005.

Despite this, the Company received satisfactory results from its major associates. First Shanghai Investments Limited ("FSIL") reported a profit of HK$236.57 million (approximately US$30.41 million) for 2006, representing a jump of 210% over that of the previous year. During the year, FSIL completed the disposal of its child products business and the properties in Shanghai Zhangjiang Hi-Tech Park and recorded a satisfactory return. Following the success, FSIL continued to invest in the property sector and commenced several property development projects in China in 2006.

Upon completion of second round financing and acquisition of the remaining part of the property complex in the first half, CITIC Capital China Property Investment Fund, L.P. (the "Fund"), an associate of the Group worked with several professional leasing teams in the hope of generating higher returns to the Fund. Overall rental income increased significantly but was largely set off by the higher finance costs incurred for the new acquisition. The decrease of net profit year-on-year by 68% was mainly attributable to a net gain of US$13.40 million from fair value adjustment of the property recorded at the end of 2005. During the second half year, the Fund also explored opportunities to realise the potential value of the investment and entered into a conditional agreement for disposal of the property complex. It is expected that the disposal will be completed by the second quarter of 2007.

As a result of various negative factors such as products price reduction and increase of raw material costs, Shandong Lukang Pharmaceutical Co., Ltd. ("Lukang") continued to suffer from a highly competitive antibiotics market in 2006. Despite strenuous efforts spent on cost-cutting and re-adjustment of its products mix, Lukang issued a profit warning in January 2007 that a substantial loss was expected in the fourth quarter of 2006 and the whole year of 2006.

Chairman's Statement

On 16 October 2006, the shareholders of Lukang approved the share reform proposal of which Lukang would issue new shares against its reserves to all tradable-share holders. The Company was granted additional shares to keep its equity interests unchanged after the share reform and all the additional shares would be required to return to Lukang at the time when the Company applied for the trading right for its shares in the future. As a result, the effective interests of the Company in Lukang were diluted from 15.46% to 11.46% upon completion of the share reform and application for the trading right by the Company in the future. The shares would be subject to a lock-up period of 12 months from 31 October 2006 and certain selling restrictions if the shares are to be sold through the stock exchange upon expiry of the lock-up period. As at 31 December 2006, the fair value of Lukang was stated as US$24.78 million and the gain of US$8.85 million was transferred to the investment revaluation reserve of the Company and of the Group.

During the second half, the Company entered into agreements for several new investments. The Company invested a total of US$4.0 million in July for 25% equity interests in iMedia Holdings Ltd. ("iMedia"), which was mainly engaged in provision of digital magazines and multi-media content to internet users in China. But as the financing had not been completed, the Company held 31.03% equity interests in iMedia at the year end. In November, the Company signed agreements to acquire 30% equity interests in Shanghai Yilan Business Management Co. Ltd. ("SH Yilan") and 2.45% indirect interests in Beijing PanAm International Aviation Academy Co. Ltd. ("Beijing PanAm") respectively. SH Yilan is mainly engaged in provision of service of special-designed terminals available for on-screen advertising, real-time purchase and on-line payments while Beijing PanAm was engaged in provision of aviation training services in China. Total investments planned for SH Yilan and paid to Beijing PanAm was US$10 million and US$1.71 million respectively. For SH Yilan, a bridge loan of RMB20 million (approximately US$2.6 million) was advanced before completion of restructuring. In December, the Company entered into agreement to acquire 1.11% interest at US$1.04 million in NetDragon Websoft Inc., which is mainly engaged in provision of on-line games in China, and the consideration was paid in January 2007. The Company also entered into agreement to acquire option to buy approximately 15 million shares in China Communications Services Ltd. ("CCS") which completed its IPO on The Stock Exchange of Hong Kong Limited ("Stock Exchange") in December 2006. As the share price of CCS increased substantially after IPO, the Company recorded an unrealised fair value gain of US$3.80 million as at the end of 2006.

Due to different views with management of GreatGate China Lottery Technology Co. Ltd. ("GreatGate") over future capital operation and certain closing conditions, the Company decided to withdraw its investment of RMB20 million (approximately US$2.56 million) from GreatGate. Negotiation for repayment was completed and a termination agreement with a repayment schedule had been signed by both parties.

Chairman's Statement

Economic Outlook

China's economy maintained a steady and fast growth in 2006. The gross domestic product (GDP) recorded a year-on-year increase of 10.7% to RMB20,941 billion (approximately US$2,682 billion). During 2006, the PRC government adopted a series of macro-economic control policies and measures to avoid economic overheating, adjusting the commercial banks' reserve ratio and the benchmark one-year lending rate several times. Various administrative measures were also introduced to restrict on lending to property sectors and industrial sectors with overcapacity problem. As a result, fixed assets investment was seen slowing down with a drop of growth rate from 26% in 2005 to 24% in 2006. The consumer price index dropped to 1.5% from 1.8% of that of the previous year and the purchasing prices for raw materials, fuels and power also fell from 8.3% in 2005 to 6% in 2006, all reflecting the successful efforts of the government. The foreign direct investment actually utilised grew 4.5% year-on-year to US$63 billion, reflecting continuous inflow of foreign capital attracted by the positive outlook of China's economy.

Looking into the year 2007, it is widely believed that more efforts will be put by the government in shifting the economic focus from exports and capital spending to domestic consumption. And the tightening monetary policy is also expected to continue to avoid economic overheating and release inflationary pressure. In view of the positive outlook of China's economy, the Company will take an active approach in looking for potential investments.

Liquidity and Financial Resources

The financial position of the Group remained healthy during the year. As at 31 December 2006, the Group had cash and cash equivalents of US$16.74 million (2005 : US$15.89 million), of which US$11.99 million (2005 : US$5.43 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 against US dollar appreciates slightly 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. In addition to basic salary payments, other benefits include mandatory provident funds scheme and discretionary employee shares option scheme.

Chairman's Statement

Prospects

As a result of continuing impact of regulatory changes introduced by the telecommunication operators, the share price of KongZhong was negatively affected and dropped from US$9.76 as at the end of 2006 to US$7.03 per ADS at the end of the first quarter of 2007. On the other front, the price of B-shares of Konka Group Company Limited ("Konka") is benefited from improved result and a robust share market and records an increase from the 2006 closing price of HK$3.15 to the first quarter closing price of HK$3.98 per share. The Company will closely monitor the market situation and execute the disposal decision at an appropriate time.

With the additional funding from the disposal, we believe that the Company is well equipped in securing potential investment opportunities in the coming year.

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, 20 April 2007