

CHAIRMAN'S STATEMENT

The Group's attributable loss was HK\$143 million as compared to a profit of HK\$17 million in 1997. This reduction is mainly due to the substantial provisions made for the diminution in value of some investment projects of the Group and for the potential losses in two legal proceedings. The consolidated net assets value as at 31st December 1998 was HK\$839 million, representing HK\$0.82 per share. The Group's turnover in 1998 has increased substantially to HK\$914 million. This is mainly due to, for the first time, the inclusion of the turnover of Goodbaby Child Products Co Ltd ("Goodbaby"), a subsidiary engaged in the production and marketing of children products.

The Board does not recommend a final dividend. No interim dividend was declared.

1998 IN REVIEW

The results for 1998 reflected the extreme difficulties the Company has faced due to the Asian economic downturn. The regional crisis, which first became apparent in the second half year of 1997, worsened significantly during 1998 and its effect began to be felt both in Hong Kong and Chinese Mainland. The unfavorable economic conditions, however, did not deter the Company from pressing ahead with its long-term investment strategy.

In view of the unfavorable economic environment, the Board had adopted a more prudent approach in assessing the financial position and business prospects of each of the Company's investee companies in order to make sure that adequate provisions were made in the 1998 financial statements. Results of the passive direct investments held by our subsidiary, China C&Y International Holdings Ltd, were far from being satisfactory. Accordingly, substantial provisions for potential impairment were made in the accounts. The liquidation of the Japanese Controlling shareholder of one of the investee company, Showpla Hong Kong Limited, has seriously affected its liquidity and business prospect. Full provision has accordingly been made in the 1998 accounts for the sake of prudence.

The deflationary economy in China has inevitably affected the prices of Goodbaby's products in the local market. Through increasing export sales and improvement of production efficiency, Goodbaby managed to maintain a profit level similar to that of 1997. The Company's new associated company, Goodbaby Pargon Hygienic Products Co Ltd ("GPH"), started production of diapers by the end of September 1998. Marketing campaign has been launched so as to increase its market share in major cities in China.

CHAIRMAN'S STATEMENT (Cont'd)

Performance of Shanghai Zhong Chuang International Container Storage & Transportation Co Ltd ("ZCIC") in 1998 was not satisfactory due to bad debt problems and keen market competition. Zhejiang Shaoxing Betung Instrument Co Ltd had a record year despite an overall depression in the motor vehicle industry in China. It has firmly established its position as a leading manufacturer of motor vehicle instrument panels in China.

The turnover and operating results of RBI Holdings Limited continued to increase steadily in 1998. Significant losses were recorded by China Assets (Holdings) Limited ("China Assets") in 1998 mainly due to provisions made against investments in certain projects. The management of China Assets took a prudent and pragmatic approach and made full provisions for those investments which do not seem to be able to turnaround or be realized in the foreseeable future.

In the area of financial services, despite unfavorable conditions in the local stock market in 1998, our corporate finance division was able to demonstrate its capabilities to capture viable business. However, the Group suffered a loss of HK\$23 million in 1998 in share dealing and the Management has since adopted a policy to curtail this activity.

FUTURE PROSPECTS

The Board is prepared for 1999 to be as tough as 1998. The Management would seek to improve the results of the Group by monitoring more closely the business performance and internal control system of each of the investee companies so as to enhance their efficiency and profitability.

As China is expected to join the World Trade Organization, a more favorable market condition will enable the Group to expand its business. ZCIC, being the largest container transportation and freight forwarding company in Shanghai, will benefit from a more regulated market with increasing import and export volume. Goodbaby with its comparatively lower production cost, is expected to further expand its export sales when the tariff of the importing countries is decreased. GPH will be able to reduce its production cost when the import duty for its raw materials is decreased, which makes its products more competitive in the local market. A more open Chinese economy will offer better investment opportunities to both the Company and China Assets. The recent signs of recovery in stock market and the establishment of a second board market will provide room for expansion for the Group's financial services division.

CHAIRMAN'S STATEMENT (Cont'd)

The Board deemed it prudent to make appropriate provisions in 1998. Notwithstanding these exceptional provisions, the Group continues to maintain a healthy and liquid financial position. The Group's gearing ratio as at 31st December 1998 was at a low level of 12%. The Group is therefore well positioned to explore opportunities in the challenging environment. Yet the Management will take a cautious approach especially in capital investment.

I shall retire as Chairman after the announcement of the Company's 1998 final results. Mr Lao Yuan Yi who has been the Managing Director of the Company for several years will succeed me. Mr Lao is well educated and experienced in business investments and management, and his ability has been well appreciated. Although I shall retire during this challenging and perhaps difficult period, I am confident that with the Management's firm commitment the Company will overcome all the difficulties and reward shareholders in the years ahead. I also wish to take this opportunity to thank my fellow directors, the Management and all the staff for their support, hard work and contributions.

CHEN Wei Li

Chairman

Hong Kong, 29th April 1999