

Managing Director's Statement

FINANCIAL REVIEW

The Group's turnover for the year was approximately HK\$135.4 million, representing an increase of approximately 69.5% from that of the last year. The increase was a result of the acquisition of principal subsidiaries during the year, which has brought in additional turnover item and increased rental income included in turnover.

Net profit for the year was approximately HK\$62.4 million, resulting in earnings per share of 4.8 cents. Comparing to that of last year, both net profit and earnings per share have recorded an increase of approximately 90.8% and 84.6% respectively.

The increase in net profit and earnings per share for the year was a collective effect of extra profit brought about by increased turnover as explained above; gain on disposal and restructuring of shareholding of associates and significantly improved results of associates. The increase was partially set-off by increased direct operating expenses, administrative expenses and finance cost incurred as a result of the acquisition of principal subsidiaries and written off of provision of doubtful debt totalling HK\$43.6 million included in other operating expenses.

The profit shared from associates has improved significantly from a net loss HK\$59.8 million in last year to a net profit of HK\$14.2 million in the current year. It was due mainly to the improved performance of CII Limited ("CII") and Jiangxi Copper Co., Ltd. ("JCC") whose profit contribution to the Group was more than compensated the increased loss shared from SilverNet Group Limited ("Silver Net"). More detailed discussion on these associates is covered in the "BUSINESS REVIEW AND PROSPECT" section below.

Incidentally, in both years there was a non-recurring exceptional item of approximately the same magnitude but different in nature. The exceptional item in last year was a gain on deemed disposal of interest of SilverNet while the one in the current year was recovery of a bad debt previously written-off, details of which are discussed in following section.

BUSINESS REVIEW AND PROSPECT

Year 2001 remains a year of business adjustments for the Group. The adjustments emphasis on disposing of those non core businesses while at the same time raising working capital to meet the possible redemption requirement of the Group's convertible bonds due in August 2002. These adjustments were substantially completed.

During the year under review, the performance of each of the business of the Group is summarized in the following paragraphs.

PRC Property Development

During the year the Company has acquired a principal subsidiary namely Beijing East Gate Development Limited ("East Gate"). East Gate is a co-operative joint venture company incorporated in the People's Republic of China ("PRC") which is principally engaged in the business of property development and property related investments in Beijing, PRC. East Gate has property interest, including two serviced residential block, a four-level shopping mall and car parking spaces totalling approximately 128,000 square meter, in a commercial complex known as East Gate Plaza located on the second ring road of the Beijing City ("East Gate Plaza"). East Gate Plaza recorded a good occupancy rate and is generating steady rental income to the Group.

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East Gate is also currently engaged in a government project of “redevelopment of endangered houses” known as the HaiYun Warehouse project. The site area of the HaiYun Warehouse project is approximately 280,000 square meter and is scheduled to be completed by the end of year 2002. The Directors are now negotiating and soliciting several development projects to expand the property development business of East Gate while at the same time working closely to prepare for issuing A share or B share in the PRC.

Infrastructure Investment

The Group's investment in infrastructure projects in the PRC is conducted through its 50% owned associate, CII. CII currently hold interests in nine completed infrastructure projects. Total investment cost of the projects amounted to approximately HK\$2.1 billion and the net asset value of CII at 31st December, 2001 was HK\$1.3 billion. The nine projects all together have contributed approximately HK\$322.2 million and HK\$131.6 million gross income and net profit respectively to CII.

During the year, the CII management had concentrated its effort on strengthening effectiveness of road fees and toll collection and streamlining operation efficiency at all level which will remain the emphasis of the CII management in the coming year. In addition, the CII management is also negotiating with local authorities to raise toll rates and to cooperate with local government to figure out measures for the purpose of attracting more traffic flows. Any positive outcome of these negotiations and measures will be capable of bringing in significant enhancement to the magnitude of gross toll income and cash inflow to CII. The CII management is also discussing with certain municipal government the possibility of different kinds of cooperation.

Giving the encouraging results of CII, the Directors are confident that CII will continue to generate stable and recurring income and cash inflow to the Group.

High Technology Investment

SilverNet, an associate for the Group's strategic investment for participating in the high technology industry has recorded a loss of approximately HK\$141.9 million. Although SilverNet has a disappointing result, it is not unexpected. The global economic downturn has greatly depressed corporate IT related spending in the past year. SilverNet like its co-players in the high technology industry was hard to run a profitable business for year 2001.

When setting its long-term strategies for future development, the Directors have finally decided to dispose of the Group's entire interest in SilverNet. In March 2002, the Company has conditionally agreed to sell the Group's investment in SilverNet to an independent third party at a total consideration of approximately HK\$163.4 million. The total consideration is payable approximately half in cash and the remaining in the form of issuing to the Company interest bearing convertible note or loan note. The Group's cash investment cost in SilverNet was HK\$110.0 million.

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Group Strategies

Following the year long and gradual process of restructuring, the Group has substantially achieved the strategies of disposing of its non-core businesses, centralizing resources and developing the core businesses set by the Directors. Going ahead, PRC property development and PRC infrastructure investment are the two core businesses of the Group. The Directors will concentrate its effort on soliciting quality investment or projects in the aspect of core businesses for the purpose of, on one hand, generating stable and recurring income while on the other hand achieve growth through economic of scale.

The Directors has also decided to make investments in the finance sector, including but not limited to securities, insurance and investment funds, both in Hong Kong and in the PRC. The Directors are currently investigating several investment opportunities of such kind for the purpose of starting a new business for the Group. The Directors are also actively seeking quality investment opportunities in these areas.

The Directors believe that participating in financial investment will provide a major source for rapid growth and income to the Group.

Convertible Bonds

In 1997, the Group issued US\$115.0 million convertible bonds due August 2004 ("Convertible Bond"). However, several clauses of the Convertible Bond have provided for a pre-maturity redemption of the Convertible Bond under certain conditions. Having regard to the market condition for the time being and in the foreseeable future, the Directors consider the Group is likely to redeem the outstanding Convertible Bond in full in August 2002. Approximately USD33 million principal amount of the Convertible Bond remains outstanding at the date of this report. The Directors are delighted to assure shareholders that the Group has secured adequate working capital to satisfy the possible redemption requirement in August 2002.

Recovery of Bad Debt

During the year, the Company has acquired from China Nonferrous Metal Group (Hong Kong) Limited ("China Nonferrous") the remaining 50% interest in the capital of International Copper Industry (China) Investment Limited ("ICC") a 50% owned associate of the Group. ICC is the beneficial owner of 500,000,000 H shares in JCC. The total consideration paid was HK\$1.00 for the share and approximately HK\$93.7 million for the shareholder's loan of the same amount owed by ICC to China Nonferrous and was satisfied by settling against an amount, including previously charged interest, of approximately HK\$93.7 million owed by China Nonferrous to the Company. Full provision for the amount owed by China Nonferrous had been made in previous years and the same was reversed in the year following this transaction and thus generated an exceptional profit amounting to approximately HK\$93.7 million.

Immediately following the completion of the above China Nonferrous transaction, the Group becomes the sole owner of ICC. Subsequent to that, the Company has sold 50% indirect interest in ICC to China Minmetals H. K. (Holdings) Limited ("China Minmetals") at a total consideration of HK\$325.0 million. The consideration is payable by installments and each installment bear interest chargeable at prime rate.

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Other Investments

The Directors have resolved to dispose of the Group's investments in PRC retailing business, property development in Hong Kong and industrial investments.

During the year, the Group has disposed of its entire investment in Chongqing Qingling Casting Co., Ltd. at a consideration representing approximately the Group's carrying value. The Group realized approximately HK\$82.8 million.

During the year, the Group has disposed of its entire 30% interest in Crabec Holdings (BVI) Limited, which engages in property development in Hong Kong. As the disposal price represents approximately the Group's carrying value of the investment, the disposal therefore resulted in no material gain or loss to the Group.

For PRC retailing business, the Group and the other joint venture partner of Beijing Wangfujing Retail Management Co., Ltd. ("Wangfujing") has, at the end of year 2001, resolved to liquidate Wangfujing. Upon completion of the liquidation process, the Group will be distributed a 50% interest in the property originally owned by Wangfujing. The property is located in the Wuhan City whose professional revalued market value is RMB330 million. As the value of the property attributable to the Group represents approximately to the Group's carrying value of the investment, the realization will not result in material gain or loss to the Group.

JCC, a company in which the Group owns a 10% indirect interest through its associate, ICC, has recorded significant improvement in profit and has contributed approximately HK\$28.2 million profit to the Group. The profit contribution has improved significantly compared to the profit of HK\$10.2 million shared in the previous year.

HUMAN RESOURCES

The Group employed approximately 1,200 employees at the year end of which only approximately 20 are staff of the head office in Hong Kong. The remaining are PRC based and is employed by and work for the principal subsidiaries acquired during the year. The Group adopts a competitive remuneration package for its employees. Promotion and salary increments are assessed based on a performance-related basis.

LIQUIDITY

Despite having a net current liability of approximately HK\$960.9 million at the year end, the Group has bank balances of approximately HK\$204.8 million and total assets and net asset of approximately HK\$3.7 billion and HK\$2.0 billion respectively at 31st December, 2001. Given the foregoing, the Directors are of the opinion that the Group's financial position is healthy.

DIVIDEND

The Directors have resolved to recommend a final dividend of HK\$0.02 per share for the year ended 31st December, 2001 in the coming Annual General Meeting to be held on 27th May, 2002. If approved, the final dividend will be payable in cash on 10th June, 2002 to shareholders whose names are listed on the register of member of the Company on 27th May, 2002.

By order of the Board

GAO Jian Min

Managing Director

24th April, 2002