ANALYSIS OF THE GROUP'S PERFORMANCE

The Group's turnover for the year ended 31st December, 2001 totaled HK$3.234 billion, representing an increase of 2.4% from HK$3.158 billion over the last year. During the year of 2001, the revenue generated from newspaper publication and from the trading of Chinese and western pharmaceutical products become new sources of income for the Group which were accounted for the increase in revenue.

The Group's audited consolidated loss attributable to shareholders for the year ended 31st December, 2001 amounted to HK$598.7 million, representing a decrease of approximately 18.1% from HK$730.7 million recorded in last year. The losses incurred was mainly attributable to the provision for impairment and revaluation losses on toll highway and investment properties, operating losses in the Group's tire operations, newspaper publishing as well as provision for diminution in value of investments.

LIQUIDITY AND FINANCIAL RESOURCES

During the year of 2001, the Group financed its operations through cash generated from its business activities, banking facilities provided by its bankers and disposing of under-performing investments.

The Group's short term borrowing has been reduced from HK$1,352 million as at 31st December, 2000 to approximately HK$922 million as at 31st December, 2001. Long-term borrowing has been decreased from HK$595 million as at 31st December, 2000 to approximately HK$593 million as at 31st December, 2001. As a result, the Group's total borrowing has been reduced from HK$1,947 million as at 31st December, 2000 to approximately HK$1,515 million as at 31st December, 2001 representing a decrease of 22.2%. The gearing ratio, calculated to the total long term borrowing divided by total shareholders funds increased from 0.209 to 0.267.

Cash and bank balances amounted to approximately HK$745 million (2000: HK$885 million), most of which were denominated in Hong Kong dollars ,US dollars, Australian dollars and Renminbi. The Company was not exposed to any material exchange rate fluctuation during the year under review.

COMMENTS ON SEGMENTAL INFORMATION AND SIGNIFICANT INVESTMENTS

China Enterprises Limited

For the period under review, China Enterprises Limited ("China Enterprises"), a subsidiary of the Company listed in the New York Stock Exchange reported that persistent competition and tough operating conditions depressed overall results for the year. Tire prices in China declined by approximately 3-5% despite soften raw material prices. Despite the above, China Enterprises managed to increase revenue by RMB0.4 billion to RMB2.7 billion for the year (2000: RMB2.3 billion). This was mainly due to increased sales volume especially for domestic radial tires due to the abolishment of the 10% consumption tax effect starting from 1st January, 2001. Hangzhou Zhougce Rubber Co., Ltd ("Hangzhou Factory") continued to be the best performer and recorded a 29% increase in its revenue to RMB2.06 billion as a result of increased sales volume. Hangzhou Factory achieved net income of RMB53.5 million for the year 2001 compared to a net loss of RMB1.6 million last year mainly due to better profit margin achieved. The Yinchuan C.S.I. (Great Wall) Rubber Co., Ltd incurred a net loss of RMB162.2 million in the year 2001 compared to a net loss of RMB47.8 million in 2000 was primarily due to the negative margin, and the increase in general provision for doubtful debts and transportation expenses.

Loss before taxation and minority interests was RMB97.9 million (2000: RMB76.7 million) and net loss after tax and minority interest was RMB50.3 million for the year (2000: RMB58.2 million). During the year, China Enterprises decided to dispose of its entire interest in Double Happiness Tyre Industries Company Limited, a 55% subsidiary of the Company which was deemed non-performing and written off to the income statement. As a result, consolidated net loss of China Enterprises was RMB135.4 million for the year ended 31st December, 2001 (2000: RMB 79.4 million).

In the fourth quarter of 2001, China Enterprises received notification from the New York Stock Exchange ("NYSE") that China Enterprises failed to maintain a minimum total average market capitalization of US$15 million over a consecutive 30 trading-day period. A business plan was submitted to the NYSE in early 2002 that outlined China Enterprises' plan to comply with the listing requirement. China Enterprise will be subject to an 18-month monitoring period by the NYSE. There is no assurance that the NYSE will accept the plan and decide to allow China Enterprises to remain listed. In the event that China Enterprises' shares cease to be listed on the NYSE, China Enterprises will consider an alternative listing venue.

China Land Group Limited

During the year, China Land Group Limited ("China Land") reported turnover of approximately HK$114.9 million when compared to last year's figure of approximately HK$69.7 million. The increase was mainly attributable to sale of properties in both Hong Kong and the People's Republic of China (the "PRC").

China Land reported a net loss of HK$394 million in 2001 compared to a net loss of HK$583 million in 2000. The operating loss for the year included provisions made for revaluation deficits of the toll road, investment properties, diminution in value of properties and investment securities totaling HK$508 million, after consideration of various underlying conditions of China Land's assets. The loss for the year before making provisions was HK$33 million.

Barring unforseeable circumstances, China Land does not anticipate any further significant provisions for impairment and revaluation losses in the coming year.

The year under review was an eventful year to China. The economy of China was stimulated by its accession to the World Trade Organization and the exciting news that the 2008 Olympic Games will be held in Beijing. China Land was eager to increase its recurring income. The construction works of China Land's project in Guangzhou were resumed with a view to increase the rental income from China Land's leasing business. The construction works of the toll road project in Shenzhen were substantially completed at the end of year 2001. It is expected that Shenzhen Highway and Paul Y. Plaza will contribute significant recurring income to China Land in the forthcoming years. In July 2001, China Land was successful in raising funds through the placing and subscription of new shares.

Australia Net.Com Limited

Australia Net.Com Limited ("ANC"), an Australia Stock Exchange listed subsidiary, recorded a consolidated loss after income tax of A$11,470,299 compared with a consolidated profit after income tax of A$1,076,988 for the preceding year. During the year, the directors of ANC continued to look at strategic investment opportunities with a view to recapitalising ANC. Unfortunately no investments were identified that were satisfied to meet the vision for the future of ANC. Given the substantial financial resources of ANC, the directors of ANC are confident that a suitable investment opportunity will ultimately be identified.

Tung Fong Hung Investment Limited ("Tung Fong Hung")

Tung Fong Hung, a wholly-owned subsidiary of the Company since November 2001, has been playing an active role in the modernisation of Chinese medicine. Through setting up factory facilities in Zhongshan and Tai Po, Tung Fong Hung's manufacturing facilities are advanced to "Good Manufacturing Practice" (GMP) standard for the manufacturing of health food and western pharmaceutical products. This is a break-through that will lead Tung Fong Hung to the international market. With great effort and vision to commercialise and modernise its products in the medicine industry in the local and international market, Tung Fong Hung also actively takes part in clinical researches, international conferences and exhibitions, sponsorships and joint scientific research projects.

Tung Fong Hung is working diligently in developing new products. "Chien-Ti-Qing-Hui-Wan (CTW)", a herbal health products manufactured by Tung Fong Hung which is an ideal health product for slimming, maintaining good health and cleansing the bowels, becomes a hot seller in the year. International experts and authoritative research institutes are engaged to verify the therapeutic functions of CTW, all with positive results.

With effective well selected sales channel, Tung Fong Hung has extended its retailing business network to nearly 100 outlets spreading around Hong Kong, mainland China, Taiwan, Canada and Singapore.

MATERIAL ACQUISITIONS AND DISPOSALS

In April, 2001, the Company announced the consolidation for every ten issued and unissued shares into one consolidated share (the "Consolidated Share") and reduction of the nominal value of each of the issued and unissued Consolidated Shares from HK$1.00 to HK$0.10 (the "Capital Reduction") (collectively the "Capital Reorganisation"). The petition for the confirmation of the Capital Reduction was heard by the Court on Tuesday, 31st July, 2001. The Capital Reorganisation was effective from 10th August, 2001.

On 18th May, 2001, the Company and Star East Holdings Limited ("Star East") entered into a conditional agreement with Upland Profits Limited, a wholly-owned subsidiary of Capital Strategic Investment Limited ("CSI") in respect of the disposal of shares in and shareholder loans from Gold Brilliant Limited ("Gold Brilliant"), a company beneficially held as 65% by the Company and as to 35% by Star East, for the consideration of HK$206 million. Gold Brilliant holds 74.99% shareholding in Premium Land Limited ("Premium Land") (formerly known as Sing Pao Media Group Limited). At the same time, the Company through Expert Solution Limited ("Expert Solution"), which was owned as to 65% by the Company and as to 35% by Star East, entered into a disposal agreement regarding the acquisition of the entire issued share capital of and shareholder loan to Actiwater Resources Limited ("Actiwater Resources"), a wholly-owned subsidiary of Premium Land whose principal activities are publication of Sing Pao Daily News, books and magazine publishing and an Internet portal specializing mainly in news and information in China, for a cash consideration of HK$110 million. Further details can be found in circular to shareholders dated 18th June, 2001. Completion of the aforesaid transactions took place on 9th July, 2001.

On 17th September, 2001, Hansom Eastern (Holdings) Limited ("Hansom") (formerly known as Tung Fong Hung (Holdings) Limited) had served a notice of exercise of an option granted by See Ying Limited ("See Ying"), a wholly-owned subsidiary of the Company, to Hansom to require See Ying to purchase 5,100 shares representing 51% of the issued share capital of Tung Fong Hung within a period of two years from the date of a share purchase and option agreement dated 10th November, 2000 for the consideration of HK$45,900,000. After completion of the transaction, Tung Fong Hung became a wholly-owned subsidiary of the Company.

On 24th September, 2001, Expert Solution entered into an acquisition agreement (the "Acquisition Agreement") with Sing Pao Media Group Limited ("Sing Pao") (formerly known as STAREASTnet.com Corporation) regarding the disposal of the entire issued share capital of and shareholder's loan of approximately HK$210.50 million to Actiwater Resources for consideration of HK$210 million (the "Consideration"). The Consideration will be satisfied as to HK$50 million in cash and HK$160 million by the issue of 1,600 million new shares in Sing Pao at HK$0.10 per share. Completion of the aforesaid transaction took place on 4th December, 2001.

On 1st February, 2002, Million Good Limited, a wholly-owned subsidiary of China Enterprises, and Ananda Wing On Travel (Holdings) Limited ("Ananda") entered into a subscription agreement (the "Subscription Agreement") in respect of the subscription of 4,800,000,000 new shares of HK$0.01 each in the capital of Ananda at an issue price of HK$0.027 per share which will be paid upon completion of the Subscription Agreement. At the same time, China Enterprises and Ananda entered into a subscription agreement (the "CN Agreement") regarding the subscription of the convertible note issued by Ananda to China Enterprises or its nominee for a consideration of HK$120,000,000 which will be paid upon completion of the CN Agreement. Further details can be found in circular to shareholders dated 4th March, 2002.

In March 2002, the Company announced to propose to raise about HK$138.3 million, before expense, by issuing not less than 921,957,884 new shares by the rights issue with the bonus issue at a price of HK$0.15 per rights share. The Company will provisionally allot two rights shares for every one existing share held by the qualifying shareholders on the record date with bonus warrants in the proportion of three units of subscription rights with initial subscription price of HK$0.17 for every ten rights shares taken up.

NUMBER OF EMPLOYEES, REMUNERATION POLICIES AND SHARE OPTION SCHEME

As at 31st December, 2001, the Group employed approximately 16,175 (2000: 15,548) staff. Remuneration packages comprised of salary and year-end bonuses based on individual merits. No share options were granted or exercised during the year ended 31st December, 2001.

CONTINGENT LIABILITIES

(a) At 31st December, 2001, the Group had given guarantees to banks in respect of banking facilities granted to outsiders of approximately HK$181 million (31.12.2000: HK$279 million). In addition, the Group has given guarantees to banks in respect of banking facilities granted to associates amounted to approximately HK$2 million (31.12.2000: HK$2 million).

(b) The Company granted a guarantee in favour of MTR Corporation Limited ("MTR") in respect of outstanding rent and obligations under the tenancy agreement entered into between Tung Fong Hung Medicine (Retail) Limited, a wholly-owned subsidiary of the Company and MTR for the leased properties.

(c) In August 1999, the architect of Paul Y. Plaza (formerly known as Jiangnan Centre) initiated legal proceedings against Eventic Limited ("Eventic"), a wholly-owned subsidiary of China Land in respect of claim for payment of service fees and other expenses of HK$0.6 million and HK$6.6 million respectively.

Eventic has vigorously defended the claims and made a counterclaim for loss and damages suffered due to insufficient supervision services provided.

In view of the counterclaim made by Eventic, the architect amended its total claims to HK$7.7 million. At the date of this report, the proceedings are still ongoing. After taking into consideration the advice of China Land's legal counsel, the directors consider the outcome of the proceedings will not have material adverse financial effect on the Group.

(d) In July 2001, Huizhou World Express Property Ltd. ("Huizhou World Express"), an indirect non-wholly owned subsidiary of China Land, initiated legal proceedings against the Huizhou Municipal Government of the Guangdong Province the PRC, in its capacity as the guarantor of Huizhou Jia Cheng Group Co., Ltd. ("Huizhou Jia Cheng"), the main contractor for the construction of Hongkong Macau Square, under a guarantee letter dated 7th September, 1994 executed by the Huizhou Municipal Government in favour of Huizhou World Express. The amount claimed by Huizhou World Express was approximately RMB243.6 million, being the construction costs of approximately RMB167.5 million paid by Huizhou World Express to Huizhou Jia Cheng together with the damages for the amount of approximately RMB76.1 million.

As at the date of this report, Huizhou World Express is waiting for the hearing of the case. At this stage, the outcome cannot be predicted with certainty. As the total construction costs of Hongkong Macau Square has already been written off, the directors are of the opinion that there is unlikely to be any material adverse financial impact on the Group in the event that the final judgement is not in favour of Huizhou World Express.

(e) In November 2001, the purchasers (the "Purchasers") on certain properties of Hongkong Macau Square, Huizhou according to the pre-sale agreements dated 7th September, 1994 initiated legal proceedings against Huizhou World Express for failure to hand over the properties of Hongkong Macau Square to the Purchasers. The amounts claimed by the Purchasers were approximately HK$76.6 million, being the pre-sale deposits together with damages of approximately RMB64.2 million and relevant legal expenses.

In January 2002, Huizhou World Express filed in its defences alleging that in accordance with the terms of the above-mentioned agreements, any disputes between the contractual parties should be resolved by means of arbitration. As at the date of the report, the Intermediate People's Court of Huizhou, Guangdong Province, is still considering the cases. At this stage, the outcome cannot be predicted with certainty and no further provision has been made in the financial statements.

PLEDGE OF ASSETS

At 31st December, 2001, the following assets were pledged to secure credit facilities granted to the Group:

(a) Bank loans and other borrowings – due after one year

Investment properties with a carrying value of HK$17,630,000 (2000: HK$32,130,000)

Certain property, plant and equipment with a carrying value of HK$234,462,000 (2000: HK$238,033,000)

Investment in security of HK$5,244,000 (2000: Nil).

Certain shares in associates with carrying value of approximately HK$53,194,000 (2000: Nil).

(b) Bank loans and other borrowings – due within one year

Bank deposits of HK$83,520,000 (2000: HK$612,351,000).

Shenzhen Longchen Xinyuan Industrial Co., Ltd ("Longchen Xinyuan") pledged its right to toll fee income to a bank to secure the credit facilities for the year ended 31st December, 2000 and 2001.

At 31st December, 2000, a subsidiary of China Land issued two debentures in favour of a bank by way of creating a first floating charge on its entire interest in Longchen Xinyuan pledged with a carrying value of HK$618,999,000 to secure the credit facilities. The debentures were released upon repayment of the bank borrowings during the year.