ANALYSIS OF THE GROUP'S PERFORMANCE

The Group's turnover for the six months ended 30th June, 2003 totaled HK$1.736 billion, representing an increase of 1.8% from HK$1.706 billion over the comparable period last year. The turnover in toll highway operation, property investment, hotel operation and heavy industry was no longer consolidated following the disposal or restructuring of those operations. The decrease in turnover from those operations was offset by the increase in turnover from the tires operation.

The Group's unaudited consolidated loss for the six months ended 30th June, 2003 reduced by 12.9% to HK$132.7 million as compared to HK$152.4 million in the last corresponding period. The net loss for the period was mainly attributable to the Group's sharing of losses of its associates during the period.

LIQUIDITY AND FINANCIAL RESOURCES

During the first half of 2003, the Group financed its operations mainly through cash generated from its business activities, banking facilities provided by its principal bankers and proceeds from disposal of investments.

The Group's short-term bank loans and other borrowings decreased from approximately HK$997 million as at 31st December, 2002 to approximately HK$906 million as at 30th June, 2003. Long-term bank loans and other borrowings increased from approximately HK$87 million as at 31st December, 2002 to approximately HK$189 million as at 30th June, 2003. As a result, the Group's total bank loans and other borrowings increased from approximately HK$1,084 million as at 31st December, 2002 to approximately HK$1,095 million as at 30th June, 2003 representing an increase of 1.0%. The gearing ratio, calculated to the total long-term bank loans and other borrowings divided by total shareholders' funds increased from 0.050 to 0.120. The Group's total borrowings of HK$1,095 million were mainly denominated in HK dollars and Renminbi, and the maturity profile spreads over a period of five years with approximately HK$906 million repayable within one year, approximately HK$189 million repayable two to five years. Non-HK dollar denominated loans are directly related to the Group's businesses in the countries of the currencies concerned.

As at 30th June, 2003, total bank borrowings of the Group amounted to approximately HK$1,044 million and over 90% of the Group's bank borrowings bear interest at fixed rates and the remaining were at floating rates.

During the period under review, capital expenditure aggregated to approximately HK$284 million and was used primarily for expansion of existing facilities. The Group's capital expenditures will continue to be funded primarily from cash generated from operations, cash on hand or by bank borrowings or a combination of both as required.

Cash and bank balances amounted to approximately HK$341 million, and is mainly denominated in Hong Kong dollars, Renminbi and Australian dollars. The Company does not expect significant exposure to exchange rate and interest rate fluctuations. As a result, the Group did not enter into any foreign exchange contracts, currency swaps or other financial derivatives.

SIGNIFICANT INVESTMENTS

China Enterprises Limited (carried on business in Hong Kong as China Tire Holdings Limited) ("China Enterprises")

In the first half of 2003, China Enterprises generated revenues of RMB1.7 billion compared to the restated revenues of RMB1.2 billion for the corresponding period in the previous year. It increased its net loss by 4.8% to RMB24.2 million. The loss incurred during the period was mainly attributable to the share of losses in its travel business related affiliate. The travel business in the Greater China Region was dampened by the outbreak of the Severe Acute Respiratory Syndrome (the "SARS") in first half of 2003. However, the business rebounded in the second half of the year as the unfavorable effects of the epidemic subsided.

In January 2003, China Enterprises disposed of its entire interest in Yinchuan C.S.I. (Greatwall) Rubber Co., Limited ("Yinchuan CSI") for a consideration of RMB35.0 million. On 15th June, 2003, China Enterprises entered into a contract with an independent third party, Hangzhou Industrial & Commercial Trust & Investment Co., Limited ("Hangzhou I&C"), for disposal of a 25% interest in Hangzhou Zhongce Rubber Co., Limited ("Hangzhou Zhongce"), currently a 51% owned subsidiary of China Enterprises, for a consideration of approximately RMB164.7 million in order to widen the shareholders' base of Hangzhou Zhongce. The Company considers the sale to be beneficial to both the further development of Hangzhou Zhongce in the PRC and its future value to the Company. The sale is conditional upon the parties receiving approval of the transaction from the China Commercial Department, an agency of the government of the PRC.

MRI Holdings Limited ("MRI")

During this accounting period, Australia Net.Com Limited has undergone a name change to MRI Holdings Limited (ASX code: MRI) and a change of status with the Australian Stock Exchange Limited ("ASX") from a cash box company to a listed investment company.

MRI has continued to investigate investment opportunities and this has culminated in an investment of A$4 million in Fruit Project Australia ("FPA") (an integrated fruit growing, packing and export operation based in the southwest of Western Australia) by way of a convertible note. The note is interest bearing at a fixed interest rate of 8% per annum and is repayable within 3 years. The note is convertible to equity by way of shares at a 30% discount to market if FPA lists on the ASX or 30% discount to valuation otherwise and the decision to convert is with MRI.

MRI continues to look for suitable investment opportunities.

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

Despite of the sluggish retail market under a slowly recovering economy, Tung Fong Hung incurred a net loss for the first half year of 2003 amounting to approximately HK$4.2 million as compared to HK$18.5 million for the corresponding period in the previous year. The significant reduction in net loss was largely a result of the management's continuing efforts to enhance operational efficiency and reduced running expenses.

Unfortunately, after the outbreak of the SARS, local retail sales further dropped. However, with the containment of SARS and the introduction of the Mainland-Hong Kong Closer Economic Partnership Arrangement which led to the improvement of tourist business from China, the management believes that its turnover will recover in the foreseeable future.

Tung Fong Hung has been aggressively developing new products to suit the current market needs and widen the product range with an aim to stimulate revenue. In particular, new products such as nano-masks and「清肺抗炎茶」received favourable market response during the outbreak of the SARS. It reduced the negative impact of the SARS to the performance of Tung Fong Hung to some extent. Besides, the network of concessionary counters in the PRC continued to capitalize on the growing demand in China.

On 30th July 2003, the western pharmaceutical manufacturer, Jean-Marie Pharmacal Company Limited ("Jean-Marie") disposed its 50% interest to a strategic partner. This strategic move further strengthens Jean-Marie's manufacturing capabilities for biotechnology and health-related products.

PROSPECTS

Following series of group reorganization exercise, the Group has already fully diversified its scope of operations in the context of risk management. This prepares the Group to be more well-positioned to capture the upsides once the global economy recovers.

As markets in the Greater China Region keep improving from the unfavorable effects of the SARS together with various re-vitalization programmes launched by respective governments, the management is confident that economic and commercial activities in the region would be recovered before the end of 2003. More and more investment opportunities with great potential would emerge while capital markets in the region would become active once again. The Group is prepared to maintain its concurrent conservative and cautious posture to tackle any forthcoming challenges and to seize all chances of wealth creation.

CORPORATE DEVELOPMENTS

In January 2003, China Enterprises, a non-wholly owned subsidiary of the Company, and Ningxia Yinchuan Rubber Manufacturing ("Ningxia Yinchuan") entered into a conditional sale and purchase agreement pursuant to which China Enterprises agreed to sell its entire 51% interest in Yinchuan CSI to Ningxia Yinchuan for the consideration of RMB35 million (equivalent to approximately HK$33 million).

Upon completion of the Group reorganisation in 2002, in order to maintain adequate public float for shares of Rosedale Hotel, the Company as the ultimate controlling shareholder of Rosedale Hotel, disposed 265,000,000 shares of Rosedale Hotel at consideration of HK$0.072 per share in May 2003. The shareholding interest in Rosedale Hotel of the Company has reduced to approximately 22.7% of the issued shares of Rosedale Hotel, and approximately 28.1% of the issued shares of Rosedale Hotel are held in the hands of the public which is in compliance with Rule 8.08 of the Listing Rules on the Stock Exchange.

In June 2003, China Enterprises and Hangzhou I&C entered into an agreement, pursuant to which China Enterprises agreed to dispose of its 25% interests in Hangzhou Zhongce to Hangzhou I&C for the consideration of RMB164,659,656.90 (equivalent to HK$155,178,265.00).

In July 2003, Hanny Holdings Limited ("Hanny") and Paul Y. — ITC Construction Holdings Limited ("Paul Y.") jointly announced that Well Orient Limited ("Well Orient") and Calisan Developments Limited ("Calisan"), each being indirect wholly-owned subsidiary of Hanny and Paul Y. respectively, to make a voluntary conditional cash offer at the price of HK$0.10 for each share of the Company (the "Shares") and HK$0.001 for each warrant of the Company (the "Warrants") respectively, other than those presently owned by Well Orient and Calisan (the "Offerors") and their concert parties, in order to increase the aggregate shareholdings of the Offerors in the Company to over 50% of the issued share capital of the Company, Kingsway SW Securities Limited ("Kingsway SW Securities") has been appointed by the Offerors to stand in the market to acquire Shares at a price of no more than HK$0.10 per Share. On 9th July, 2003, Kingsway SW Securities, on behalf of the Offerors, purchased 49,665,000 Shares, representing 5.98% of the issue share capital of the Company, at the open market at a price of HK$0.10 per Share. After the purchase on 9th July, 2003, the Offerors and their concert parties were interested in 291,675,000 Shares, representing approximately 35.16% of the issued share capital of the Company, thus triggering a mandatory offer during the offer period of a voluntary offer under Rule 26 of the Takeovers Code.

The Offerors notified the Company on 21st July, 2003 that the offer price under the Share offer is to be increased from HK$0.10 to HK$0.139 per Share and the Offerors, through Kingsway SW Securities, will make a mandatory conditional cash offer at the price of HK$0.139 for each Share and HK$0.001 for each Warrant respectively, other than Shares and Warrants presently owned by the Offerors and parties acting in concert with the Offerors, and to cancel all outstanding options of the Company (the "Options") at HK$0.001 per Option.

In addition to the acquisition of 49,665,000 Shares on 9th July, 2003, the Offerors also jointly purchased 161,680,000 Shares, representing 19.49% of the voting rights in the Company, at a price of HK$0.139 per Share on 11th August, 2003. Including the valid acceptances of the Share offer in respect of 77,510 Shares received by the Offerors as at 11th August, 2003, the Offerors and their concert parties hold 453,432,510 Shares, representing 54.67% of the voting rights in the Company on 11th August, 2003 and thus, the condition to which the offers are subject has been satisfied and the offers have become unconditional on 11th August, 2003.

Upon close of the offers, the Offerors and their concert parties are interested in 518,329,589 Shares, representing approximately 62.49% of the existing issued shares of the Company and 48,285,900 units of Warrants, representing approximately 29.11% of the outstanding Warrants. All outstanding Options were cancelled on 29th August, 2003. The Company became an associated company of Hanny and Paul Y..

NUMBER OF EMPLOYEES, REMUNERATION POLICIES AND SHARE OPTION SCHEME

As at 30th June, 2003, the Group employed approximately 7,644 staff. Remuneration packages comprised of salary and year-end bonuses based on individual merits. No share options were granted or exercised during the period ended 30th June, 2003.