ANALYSIS OF THE GROUP'S PERFORMANCE

The Group's turnover for the year ended 31st December, 2002 totaled approximately HK$3,602 million, representing an increase of 11.36% as compared with HK$3,234 million for financial year 2001. The increase was mainly the result of the 15.02% increase in sales of goods (net of returns and sales taxes) to approximately HK$3,435 million for the current year (2001: approximately HK$2,987 million). Turnover for the year mainly comprised of sales of goods (including tires, pharmaceutical products and others), toll highway operation, sales of properties, hotel operation and rental income, etc.

The Group's audited consolidated loss attributable to shareholders for the year ended 31st December 2002 was lowered by 20.3% to approximately HK$477 million from approximately HK$599 million recorded last year. The improvement in the operating performance of the Group was mainly contributed by the following:-

i) the significant growth in the sales of tire and pharmaceutical products
ii) the consolidated gross profit margin of the Group has increased by 87.72% over last year
iii) the other operating income of the Group has been increased by 47.47% from approximately HK$158 million last year to approximately HK$233 million in year 2002

However, the significant increase in finance costs and share of results of associates by 34.37% and 664.43% respectively had weakened the operating performance of the Group as a whole.

CAPITAL STRUCTURE, LIQUIDITY AND FINANCIAL RESOURCES

The Group generally finances its operations through cash generated from its business activities, banking facilities provided by its principal bankers and disposing of under-performing investments.

During the year, the Company successfully completed a placement in June 2002 and rights issue in August 2002 with net proceeds of approximately HK$17.8 million and HK$40 million respectively to improve the liquidity of the Group.

For the year under review, the Group's short term bank loans and other borrowings increased from HK$922 million as at 31st December 2001 to approximately HK$997 million as at 31st December 2002. Long term bank loans and other borrowings reduced from HK$593 million as at 31st December 2001 to approximately HK$87 million as at 31st December 2002. As a result, the Group's total bank loans and other borrowings was reduced from HK$1,515 million as at 31st December 2001 to approximately HK$1,084 million as at 31st December 2002 representing a decrease of 28.4%. The gearing ratio, calculated to the total long term bank loans and other borrowing divided by total shareholders funds decreased from 0.267 to 0.050. The Group's total borrowings of HK$1,084 million were mainly denominated in HK dollars and Renminbi, and the maturity profile spread over a period of five years with HK$997 million repayable within one year, HK$87 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 31st December, 2002, total bank borrowings of the Group amounted to HK$1,070 million and over 90% of the Group's bank borrowings bear interest at fixed rates and the remaining were at floating rates.

Capital expenditure aggregated to approximately HK$476 million for the past twelve months was used primarily for expansion of existing facilities. The Group's capital expenditures will continue to be funded primarily from either cash generated from operations, cash on hand or by bank borrowings or a combination of both as required.

During the year, the Group has not entered into any material foreign exchange contracts, interest or currency swaps or other financial derivatives. 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 year under review, China Enterprises Limited ("China Enterprises"), a company whose shares being traded on the OTC (over-the-counter) Bulletin Board ("OTCBB") in USA, which the Company beneficially owned 55.22% effective interest, reported that its operating results rebounded in year 2002 as the overall tire market in China improved. Total revenues of the company arising from continuing operations increased by 25.0% to Rmb2.61 billion (2001: Rmb2.09 billion). Hangzhou Zhongce Rubber Co., Limited ("Hangzhou Zhongce"), the most active subsidiary of China Enterprises, is still its major trading arm which remains one of the largest tire manufacturer in China and recorded a 13.6% increase in gross margin this year.

For the year under review, the Company disposed of two of its subsidiaries, Yantai C.S.I. Rubber Co., Limited ("Yantai CSI") and Shandong C.S.I. Synthetic Fiber Co., Limited ("Shandong Synthetic") and recognized a net realized gain on such disposals of Rmb20.1 million.

Consolidated net loss of China Enterprises was Rmb262.8 million (2001: Rmb135.4 million). It comprises a loss upon a decrease in fair value of call option associated with the convertible note of Ananda Wing On Travel (Holdings) Limited ("Ananda Wing On"), the Company's share of losses of Ananda Wing On since its acquisition on April 19, 2002 and an impairment loss of long-lived assets from discontinued operations.

The New York Stock Exchange (the "NYSE") notified the Company on December 31, 2002 that the Securities and Exchange Commission granted the application of the NYSE for removal of the common stock of the Company from listing and registration on the NYSE under the Securities Exchange Act of 1934 effective at December 30, 2002. On the other hand, the Company's common shares began trading on the OTCBB under the stock symbol CSHEF on November 26, 2002.

Australia Net.Com Limited

During the year the directors of Australia Net.Com Limited continued to look at strategic investment opportunities with a view to recapitalising the Company. Unfortunately no investments were identified that the Board were satisfied met the Board's vision for the future of the Company.

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

Tung Fong Hung incurred a net loss of HK$28 million for the year. The loss is attributed to the sluggish economic performance that dampened the local sales.

Despite the grant of the official certification of the "Good Manufacturing Practice" qualification by the Department of Health of Hong Kong in late 2002, we have not seen big change in sales of western pharmaceutical products. Since time is an essence to us in the product enlistment and tendering processes, sales to the public sector cannot be materialized during the year. Confronted with the rise in production overheads and running costs caused by the expanded production capacity, the operation suffered from operating loss. However, the management believes that the operation will start to generate revenue from the new market segments in public sector and overseas markets and hence induce a favourable effect on the bottom line in the coming year.

Tung Fong Hung, through its continuing efforts to improve the operational efficiency, has successfully reduced its running expenses and thus relieved its cost burden. Notwithstanding the decrease in sales, operations in both the local and overseas retail outlets have marked improvements as a result of the implementation in the cost-cutting measures. The management will continue to place emphasis on strategies to further enhance cost saving.

MATERIAL ACQUISITIONS AND DISPOSALS

In February 2002, Million Good Limited, a wholly-owned subsidiary of China Enterprises which is owned as to 55.2% effective equity interest and 88.8% effective voting interest by the Company, and Ananda Wing On 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 Wing On 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 Wing On entered into a subscription agreement (the "CN Agreement") regarding the subscription of the convertible note issued by Ananda Wing On 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 the circular to shareholders dated 4th March, 2002. Completion of the aforesaid transactions took place in April 2002.

In June 2002, Calisan Developments Limited ("Calisan") and Well Orient Limited ("Well Orient") are substantial shareholders of the Company and have agreed to place, through Tai Fook Securities Company Limited ("Tai Fook") on a best efforts basis, an aggregate of 92,000,000 existing shares of the Company to independent investors at a price of HK$0.20 per share. At the same date, the Company, Calisan and Well Orient as subscribers, whereby each of Calisan and Well Orient agreed to subscribe for 50% of the shares of the Company place under the placing agreement dated 6th June, 2002, entered into among Calisan, Well Orient and Tai Fook subject to a maximum of 46,000,000 new shares of the Company and 46,000,000 new shares of the Company respectively at the price of HK$0.20 per subscription share. Completion of the transaction took place in June 2002. Further details of the transaction are set out in the announcement dated 7th June, 2002.

In June 2002, the Company as the subscriber and Dong Fang Gas Holdings Limited ("Dong Fang Gas", formerly known as Companion Building Material International Holdings Limited) entered into a subscription agreement in relation to the subscription for 20,000,000,000 shares in Dong Fang Gas at a total subscription price of HK$200,000,000. Further details of the transaction are set out in the joint announcement dated 7th June, 2002. Completion of the aforesaid transaction took place in September 2002.

In July 2002, a project management services agreement entered into between the Company and Paul Y. Project Management International Limited, a wholly-owned subsidiary of Paul Y. – ITC Construction Holdings Limited, in respect of the provision of project management services for the development of the Liqiao Industrial Park at Shunyi District, Beijing, the PRC for a term of five years and for a total remuneration of not more than HK$9,000,000. Further details of the transaction are set out in the announcement dated 9th July, 2002.

In July 2002, the Company announced to propose to raise net proceeds of approximately HK$40 million by issuing not less than 276,489,471 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 one rights share for every two existing shares 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$0.16 for every five rights shares taken up. Completion of rights issue with bonus issue took place in August 2002.

In July 2002, the Company announced to propose an extensive group reorganization, the principal elements included the entering into of the subscription agreement, the placing agreement, the first, second and third sale and purchase agreements by Rosedale Hotel, a 65.6% owned subsidiary of the Company. Upon completion of the proposal agreements, Rosedale Hotel ceased to be a non-wholly owned subsidiary of the Company. Further details of the transaction are set out in the circular dated 5th October, 2002. Completion of foresaid transactions took place in December 2002.

In November, 2002, the Company as one of the vendors entered into a conditional sale and purchase agreement (the "S&P Agreement") with Sun Media Group Holdings Limited ("Sun Media") as the purchaser relating to, among others, the disposal to Sun Media of 91,635,700 shares in Leadership Publishing (the "Sale Share"), and an aggregate amount of HK$3,050,000 Leadership Publishing warrants (the "Sale Warrant") and shareholder's loan of approximately HK$15.5 million owing from the Leadership Publishing group to the group of the Company on the completion of the S&P Agreement (the "Sale Loan") (the "Completion"). Sun Media would settle the consideration for the Sale Share by issuing 549,814,200 new Sun Media shares to the Company (or its nominee) and that for the Sale Warrant in cash of HK$1.00 on the Completion, and the consideration for the Sale Loan should be satisfied by Sun Media issuing 155,048,000 new Sun Media Shares to the Company (or as it may direct) at the price of HK$0.10 per Sun Media share at the expiry of two calendar years from the date of Completion. Further details of the transaction are set out in the circular dated 27th December, 2002. Completion of the aforesaid transaction took place in January 2003.

In January 2003, China Enterprises and Ningxia Yinchuan Rubber Manufacturing ("Ningxia Yinchuan") entered into a condition sale and purchase agreement pursuant to which China Enterprises agreed to sell its entire 51% interest in Yinchuan C.S.I. (Greatwall) Rubber Company Limited to Ningxia Yinchuan for the consideration of Rmb35,000,000 (equivalent to approximately HK$33 million). Further details of the transaction are set out in the circular dated 30th January, 2003. Completion of the disposal took place in February 2003.

CONTINGENT LIABILITIES

		The Group	
		2002	2001
		HK$'000	*HK$'000*
(a)	Other guarantees issued to:		
	Associates	**169,635**	182,302
	Outsiders	**780**	780
		170,415	183,082

(b) The Company has 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.

PLEDGE OF ASSETS

At 31st December, 2002, the following assets were pledged to secure credit facilities granted to the Group:

- No investment properties were pledged as at 31st December, 2002. As at 31st December, 2001, investment properties with carrying value of approximately HK$17,630,000.
- Certain property, plant and equipment with a carrying value of HK$219,532,000 (2001: HK$234,462,000).
- Investment in securities of HK$249,990,000 (2001: HK$5,244,000).
- No shares in associates were pledged as at 31st December, 2002. As at 31st December, 2001, certain shares in associates with carrying value of approximately HK$53,194,000.
- Bank deposits of HK$24,839,000 (2001: HK$83,520,000).
- All assets of a subsidiary of the Company with a consolidated net assets value of HK$45,746,000 (2001: Nil).

In 2001, the Group pledged its right to receive toll fee income from the toll highway to a bank to secure the credit facilities. The pledge was released from the Group following the disposal of the Group's interest in the toll highway during the year.