

Analysis of the Group's Performance

The Group's turnover for the year ended 31st December, 2003 totaled approximately HK\$2.9 billion, representing a decrease of 19.4% from approximately HK\$3.6 billion compared to the financial year 2002. The turnover in toll highway operation, property investment, hotel operation and heavy industry were no longer consolidated following the disposal or restructuring of these operations. The turnover for the year mainly comprised of sales of goods (including tires and pharmaceutical products).

The Group's audited consolidated loss for the year ended 31st December, 2003 reduced by 60.0% to approximately HK\$189.5 million as compared to approximately HK\$474.1 million in last financial year. The improvement in the performance of the Group reflected the positive outcomes from the continuing management efforts to dispose of and restructure non-performing businesses or assets on the one hand, as well as the streamlining and rationalisation of existing businesses and assets on the other. As a result, there was significant reduction in other expenses from approximately HK\$760.5 million to approximately HK\$118.4 million which included impairment loss on the Group's assets as well as unrealised holding losses on investment in securities.

Capital Structure, Liquidity and Financial Resources

During the financial year 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.

For the year under review, the Group's short-term bank loans and other borrowings decreased from approximately HK\$996.9 million as at 31st December, 2002 to approximately HK\$38.3 million as at 31st December, 2003. Long-term bank loans and other borrowings reduced from approximately HK\$86.9 million as at 31st December, 2002 to approximately HK\$0.1 million as at 31st December, 2003. As a result, the Group's total bank loans and other borrowings decreased from approximately HK\$1,083.8 million as at 31st December, 2002 to approximately HK\$38.4 million as at 31st December, 2003, representing a decrease of 96.5%. The gearing ratio, calculated to the total long-term borrowing bank loans and other borrowing divided by total shareholders funds reduced from 0.050 to 0.00009. The Group's total borrowings of approximately HK\$38.4 million were mainly denominated in HK dollars, and the maturity profile spread over a period of five years with HK\$38.3 million repayable within one year, HK\$0.1 million repayable between two to five years.

本集團業績分析

本集團截至二零零三年十二月三十一日止年度之營業額合共約2,900,000,000港元，較二零零二年財政年度之約3,600,000,000港元下降19.4%。由於出售或重組經營收費高速公路、物業投資、酒店經營及重工業等業務後，該等業務之營業額不再綜合計算。本年度之營業額主要包括銷售貨品（包括輪胎及藥品）。

本集團截至二零零三年十二月三十一日止年度之經審核綜合虧損由上一財政年度約474,100,000港元減少60.0%至約189,500,000港元。本集團業績改善，反映管理層不斷努力，一方面出售或重組業績不理想之業務或資產，另一方面精簡及整理現有業務及資產。因此，其他開支大幅減少，由約760,500,000港元減至約118,400,000港元，其中包括集團資產減值虧損及持有投資證券未變現虧損。

資本架構、流動資金及財務資源

於二零零三年財政年度，本集團主要以業務所得現金、主要往來銀行所提供之信貸及出售投資所得款項作為營運資金。

於回顧年度，本集團之短期銀行貸款及其他借貸由二零零二年十二月三十一日約996,900,000港元減至於二零零三年十二月三十一日約38,300,000港元，而長期銀行貸款及其他借貸則由二零零二年十二月三十一日之約86,900,000港元減至二零零三年十二月三十一日約100,000港元。因此，本集團之銀行貸款及其他借貸總額由二零零二年十二月三十一日之1,083,800,000港元下降至於二零零三年十二月三十一日約38,400,000港元，跌幅達96.5%。資本負債比率（即長期銀行貸款及其他借貸總額除以股東資金總額）則由0.050降至0.00009。本集團之總借貸約38,400,000港元主要以港元計價，還款期長達五年，當中38,300,000港元須於一年內償還，100,000港元須於二至五年內償還。

As at 31st December, 2003, total bank borrowings of the Group amounted to approximately HK\$18.3 million and most of the Group's bank borrowings bear interest at floating rates.

Capital expenditure aggregated to approximately HK\$268.9 million for the year under review and was used primarily for expansion of existing facilities. The Group's capital expenditures will continue to be funded primarily by internal resources or external borrowings or a combination of both as required.

Cash and bank balances amounted to approximately HK\$319.9 million, and is mainly denominated in Hong Kong dollars and Australian dollars. During the year, the Company did not experience significant exposure to exchange rate and interest rate fluctuations. As a result, the Group did not enter into any material foreign exchange contracts, currency swaps or other financial derivatives.

Comments on Significant Investments

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

The tire market in the People's Republic of China ("PRC") continued strong growth in fiscal year 2003. Along with the rapid development of the PRC economy, the construction of "five vertical and seven horizontal" National Trunks System accelerated in 2003 and resulted in increased demand for motor vehicles and vehicle-related components, including tires.

For the year under review, China Enterprises disposed of all its interests in those non-performing subsidiaries, including Yinchuan C.S.I. (Greatwall) Rubber Company Limited ("Yinchuan C.S.I.") and the remaining interests in Double Happiness Tyre Industries Corporation Limited. The disposals made China Enterprises to deploy its resources released and to seek other investment opportunity.

MRI Holdings Limited ("MRI")

Throughout 2003, MRI continued to actively seek for suitable investment opportunities to meet the strategic goals of the Company.

In this regard, in July 2003, the shareholders of MRI approved the change in the status of MRI to that of an investment entity. The nature of MRI's business is now focused on investment opportunities.

The first investment in its new form, being a AUD4 million convertible note with Fruit Projects Australia Limited, was approved by the shareholders of MRI in July 2003.

於二零零三年十二月三十一日，本集團之總銀行借貸達約18,300,000港元，本集團大多銀行借貸按浮動利率計息。

於回顧年度，資本開支合計約268,900,000港元，主要用於擴充現有設施。本集團之資本開支將繼續以內部資金或外借或於需要時結合兩者而撥付。

現金及銀行結餘約達319,900,000港元並主要以港元及澳元計價。年內，本公司並無遇到重大匯率及利率波動風險。因此，本集團並無訂立任何重大外匯合約、貨幣掉期貨或其他金融衍生工具。

重要投資分析

China Enterprises Limited (「China Enterprises」) (在香港以 China Tire Holdings Limited 之名義經營業務)

中國輪胎市場於二零零三年財政年度保持強勁增長。隨著中華人民共和國(「中國」)經濟迅速發展，「五縱七橫」國道主幹線之系統建設於二零零三年加快，刺激對汽車及汽車相關零件(包括輪胎)之需求上升。

於回顧年度，China Enterprises出售其於某些業績欠佳之附屬公司包括銀川中策(長城)橡膠有限公司(「銀川中策」)以及於雙喜輪胎工業股份有限公司之餘下權益。該等出售使China Enterprises得以調配所釋出之資源，以物色其他投資機會。

MRI Holdings Limited (「MRI」)

於整個二零零三年，MRI繼續主動物色投資良機，以達致本公司之戰略目標。

為此，MRI股東於二零零三年七月批准將之轉型為投資公司。MRI之業務性質現為專注於發掘投資機會。

該公司轉型後首項投資為Fruit Projects Australia Limited 4,000,000澳元可換股票據，並於二零零三年七月獲其股東批准。

The structural move to an investment vehicle will allow MRI to identify, consider and invest in appropriate strategic investment opportunities that will provide an income generating investment portfolio offering maximum returns to its shareholders, within a clear investment mandate in terms of investment criteria as approved by its shareholders.

To the date of this report no further investments assessed had been considered suitable to meet MRI's objectives, and MRI's Directors continue to seek appropriate potential investment opportunities.

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

Tung Fong Hung recorded a profit of approximately HK\$4.5 million in 2003, compared with a loss of approximately HK\$28.3 million in 2002, which is a significant improvement for Tung Fong Hung. In the first half of 2003, the local retail sector and most of the economies in the region were affected by the outbreak of SARS. However, Tung Fong Hung launched a product called "清肺抗炎茶", was highly accepted by the community, which helped sustaining Tung Fong Hung's business during the outbreak. The implementation of "Individual Visit Scheme" provided a great boost in Tung Fong Hung's travel and retail sector. This in turn resulted in stimulation of local consumption, and hence the turnover of Tung Fong Hung has sharply increased in the second half of the year. To cope with the business development in Hong Kong, 2 new outlets were opened to consolidate Tung Fong Hung's position as a market leader. On the other hand, the measures of "cost saving" and "operational efficiency enhancement" were successfully adopted, which not only fully utilised resources in Tung Fong Hung, but also increased Tung Fong Hung's competitiveness.

On 30th July, 2003, Tung Fong Hung disposed of its 50% interest in Pacific Wins Development Ltd., which holds entire interest in Jean-Marie Pharmacal Co., Ltd., a western pharmaceutical manufacturer, to a strategic business partner.

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 (as subsequently amended in September 2003) pursuant to which China Enterprises agreed to sell its entire 51% interest in Yinchuan C.S.I. to Ningxia Yinchuan for the consideration of Rmb29 million (equivalent to approximately HK\$27 million).

此項轉型為投資工具之結構性措施，將讓MRI可物色、審視及投資於戰略性投資機會，提供一個可為股東帶來最大回報之穩健投資組合，在清晰之投資授權及股東批准之投資標準引領下創造財富。

截至本報告日期，未有物色到其他迎合MRI投資目標之投資機會，而MRI之董事將繼續發掘適合之投資機會。

Tung Fong Hung Investment Limited (「東方紅」)

東方紅於二零零三年錄得溢利淨額約4,500,000港元，相對於去年虧損淨額約28,300,000港元，業績已大幅改善。於二零零三年上半年，區內之本地零售業及絕大部分經濟均受到沙士影響。然而，東方紅適時推出「清肺抗炎茶」，大受市民歡迎，使東方紅可渡過疫症時期。「自遊行計劃」之落實，刺激本地消費並為東方紅之旅遊及零售業務打下強心針，推動東方紅之營業額於下半年大幅飆升。為配合在本港之業務發展，東方紅加開了兩個門市，藉以鞏固其市場龍頭地位。另一方面，東方紅去年成功採納「節流」及「提昇營運效率」之政策，不但能充份善用資源，亦有效提高東方紅之競爭力。

二零零三年七月三十日，東方紅出售其於Pacific Wins Development Ltd. (擁有西藥製造商正美藥品有限公司之全部權益) 50%權益予一策略業務夥伴。

公司發展

於二零零三年一月，本公司非全資附屬公司China Enterprises與寧夏銀川橡膠廠(「寧夏銀川」)訂立有條件買賣協議(協議經其後於二零零三年九月修訂)，China Enterprises同意向寧夏銀川出售所持銀川中策全部51%權益，代價為人民幣29,000,000元(相等於約27,000,000港元)。

Upon completion of the group reorganisation of the Company in 2002, the Company as the controlling shareholder of China Velocity Group Limited ("China Velocity") (formerly known as Rosedale Hotel Group Limited) disposed of 26,500,000 consolidated shares of China Velocity at a consideration of HK\$0.72 per share in May 2003 in order to maintain adequate public float of share of China Velocity. The shareholding interest in China Velocity held by the Company has reduced to approximately 22.65% of the issued shares of China Velocity, and approximately 28.1% of issued share capital of China Velocity are held in the hands of the public which was in compliance with Rule 8.08 of the Listing Rules on the Stock Exchange.

In June 2003, China Enterprises and Hangzhou Industrial & Commercial Trust & Investment Co., Ltd. ("Hangzhou I&C") entered into an agreement, pursuant to which China Enterprises agreed to dispose of its 25% interests in Hangzhou Zhongce Rubber Co., Ltd. to Hangzhou I&C for the consideration of approximately Rmb164.7 million (equivalent to approximately HK\$155.2 million).

In July 2003, Hanny Holdings Limited ("Hanny") and Paul Y. — ITC Construction Holdings Limited ("Paul Y.") 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.

於二零零二年本公司完成集團重組後，為維持中國高速(集團)有限公司(「中國高速」)(前稱珀麗酒店有限公司)有足夠公眾持股量，本公司作為中國高速控股股東於二零零三年五月出售26,500,000股中國高速合併股份，代價為每股0.72港元。本公司所持之中國高速股權減至中國高速已發行股份約22.65%，而公眾人士所持之中國高速已發行股份則約為28.1%，符合聯交所上市規則第8.08條之規定。

於二零零三年六月，China Enterprises與杭州工商信託投資股份有限公司(「杭州工商」)訂立協議，China Enterprises同意出售所持杭州中策橡膠有限公司25%權益予杭州工商，代價約為人民幣164,700,000元(相等於約155,200,000港元)。

於二零零三年七月，錦興集團有限公司(「錦興」)及保華德祥建築集團有限公司(「保華德祥」)聯合公佈，錦興間接全資附屬公司威倫有限公司(「威倫」)及保華德祥間接全資附屬公司Calisan Developments Limited(「Calisan」)提出自願有條件現金收購建議，按每股0.10港元之價格收購本公司股份(「股份」)及按每份0.001港元之價格收購本公司認股權證(「認股權證」)，威倫及Calisan(「收購人」)及與其一致行動人士現時擁有之股份及認股權證除外，以將收購人合共所持之本公司股權增至本公司已發行股本50%以上。收購人已委任滙富證券有限公司(「滙富證券」)在市場按不超過每股0.10港元之價格收購股份。於二零零三年七月九日，滙富證券代表收購人在公開市場按每股0.10港元之價格收購49,665,000股股份，相等於本公司已發行股本5.98%。於二零零三年七月九日購買股份後，收購人及與其一致行動人士擁有291,675,000股股份，相等於本公司已發行股本約35.16%，故此必須根據收購守則第26條於自願收購建議期間提出強制性收購建議。

The Offerors notified the Company on 21st July, 2003 that the offer price under the Share offer would be increased from HK\$0.10 to HK\$0.139 per Share and the Offerors, through Kingsway SW Securities, would 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 (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 Paul Y. and Hanny.

In August 2003, China Velocity and Wing On Travel (Holdings) Limited ("Wing On") (formerly known as Ananda Wing On Travel (Holdings) Limited), both associated companies of the Company, announced that the shareholders of China Velocity whose names appear on the register of members of China Velocity on 11th December, 2003 would receive by way of distribution in specie of shares of Apex Quality Group Limited ("Apex") on a one Apex share for one consolidated China Velocity share basis. Upon completion, the Company received 62,821,662 Apex shares of which became an associate of the Company.

China Enterprises entered into a conditional agreement dated 13th January, 2004 with Wing On in relation to the issue of 2% convertible note to China Enterprises or its nominee for a consideration of HK\$155,000,000. The convertible note provides China Enterprises with the right to convert into Wing On shares during a period of three years from the date of issue of the convertible note, at an initial conversion price of HK\$0.20 per Wing On share, subject to adjustment.

收購人於二零零三年七月二十一日向本公司表示，股份收購建議之收購價將由每股0.10港元增至0.139港元，而收購人將透過滙富証券提出強制性有條件現金收購建議，按每股0.139港元之價格收購股份及按每份0.001港元之價格收購認股權證（收購人及與其一致行動人士現時擁有之股份及認股權證除外，並按每份0.001港元之價格註銷本公司所有尚未行使之購股權（「購股權」）。

除二零零三年七月九日收購49,665,000股股份外，收購人亦於二零零三年八月十一日共同按每股0.139港元之價格收購161,680,000股股份，相等於本公司投票權19.49%。收購人於二零零三年八月十一日收到有關77,510股股份之股份收購建議之有效接納後，收購人及與其一致行動人士持有453,432,510股股份，相等於二零零三年八月十一日本公司投票權54.67%。因此，該等收購建議之條件經已達成，而該等收購建議已於二零零三年八月十一日成為無條件。

當該等收購建議截止時，收購人及與其一致行動人士擁有518,329,589股股份（相等於本公司已發行股份約62.49%）及48,285,900份認股權證（相等於尚未行使認股權證約29.11%）。所有尚未行使之購股權均於二零零三年八月二十九日註銷。本公司亦成為錦興及保華德祥之聯營公司。

於二零零三年八月，中國高速及永安旅遊（控股）有限公司（「永安旅遊」）（前稱辰達永安旅遊（控股）有限公司，兩者皆為本公司之聯營公司）宣佈，於二零零三年十二月十一日名列中國高速股東名冊之中國高速股東以實物分派方式收取Apex Quality Group Limited（「Apex」）股份，基準為每一股經合併中國高速股份獲派一股Apex股份。完成時，本公司收取62,821,662股Apex股份，而Apex亦因而成為本公司之聯繫人士。

China Enterprises於二零零四年一月十三日與永安旅遊就向China Enterprises或其代名人發行2%可換股票據訂立有條件協議，作價155,000,000港元。可換股票據賦予China Enterprises權利，可於發行當日起計三年內按初步換股價每股永安旅遊股份0.20港元（可予調整）兌換為永安旅遊股份。

In March 2004, the Company entered into the conditional sale and purchase agreement with Cheung Tai Hong (B.V.I.) Limited (“Cheung Tai Hong”) in relation to the acquisition by Cheung Tai Hong of the entire equity interest in Tung Fong Hung from the Company for a total consideration of HK\$42,000,000.

As stated in the joint announcement dated 5th March, 2004 of Dong Fang Gas Holdings Limited (“Dong Fang Gas”), an associated company of the Company, and PCCW Limited (“PCCW”), Dong Fang Gas conditionally agreed to purchase (i) the entire issued share capital of Ipswich Holdings Limited and its subsidiaries (“Property Group”), being the group of companies holding PCP Beijing, PCCW Tower, other investment properties and related property and facilities management companies of PCCW Limited and its subsidiaries and (ii) the loans of approximately HK\$3,529 million, in aggregate, of interest-bearing loans owing by the relevant members of the Property Group to PCCW (comprising of HK\$2,359 million and US\$150 million of such loans) and (iii) certain property interests. The consideration for the above transaction amounting to HK\$6,557 million will be satisfied by (a) as to HK\$2,967 million by the allotment and issue of approximately 1,648 million new shares of Dong Fang Gas to PCCW (or as it may direct) credited as fully paid at an issue price of HK\$1.80 per share; and (b) as to the remaining HK\$3,590 million by the issue of the convertible notes by Dong Fang Gas to PCCW or as it may direct. Upon completion of the foresaid proposals, Dong Fang Gas will become the flagship of PCCW for property development business in Hong Kong and the PRC and thereafter Dong Fang Gas will cease to be an associate of the Company.

於二零零四年三月，本公司與Cheung Tai Hong (B.V.I.) Limited (「祥泰行」) 就祥泰行以總代價42,000,000港元收購本公司於東方紅之股權訂立有條件買賣協議。

誠如本公司之聯營公司東方燃氣控股有限公司(「東方燃氣」)與電訊盈科有限公司(「電訊盈科」)於二零零四年三月五日發表之聯合公佈，東方燃氣有條件同意購入(i)Ipswich Holdings Limited及其附屬公司(「物業集團」，即電訊盈科及其附屬公司持有之北京盈科中心、電訊盈科中心、其他投資物業和相關物業及設施管理公司)之全部已發行股份及(ii)物業集團有關成員公司欠電訊盈科共約3,529,000,000港元之帶息借貸(包括2,359,000,000港元及150,000,000美元)及(iii)若干物業權益。上述交易之代價為6,557,000,000港元，將以下列方式清付：(a) 2,967,000,000港元以東方燃氣向電訊盈科(或按其指示)配發及發行約1,648,000,000股入賬列作繳足股本新東方燃氣股份的方式支付，發行價為每股東方燃氣股份1.80港元；及(b) 餘額3,590,000,000港元以東方燃氣向電訊盈科(或按其指示)發行可換股票據的方式支付。完成上述計劃後，東方燃氣將成為電訊盈科於香港及中國物業發展業務之旗艦，而東方燃氣亦將不再成為本公司之聯繫人士。