Analysis of Results

For the year ended 31 December 2000, the Group's profit attributable to shareholders was HK$112 million, as compared to the loss of HK$101 million for 1999. Turnover for the year was HK$655 million, representing an increase of 368% over 1999. Profit from operating activities for the year was HK$159 million, as compared to the loss from operating activities of approximately HK$13.61 million for 1999. Basic earnings per share for 2000 was HK cents 1.12, as compared to the basic loss per share of HK cents1.87 for 1999. During the year under review, the Group acquired a 60% equity interests in Shenzhen Shentou Transportation Group Co. Ltd. ("SSTG"), which contributed turnover of HK$558 million and net profit of HK$3.1 million to the Group. The Group's investment properties in Shenzhen continued to generate stable rental income for the Group. During the year, pursuant to an adjustment of development strategies and a group reorganization, the Group disposed of a

Management Discussion and Analysis

significant portion of businesses that were either unrelated to our core business, logistics operations, or had limited growth potential. The disposal reduced the exposure for further loss and the Group also derived disposal gain of approximately HK$90 million.

For the year ended 31 December 2000, the profit of China Southern Glass Holding Co., Ltd., a principal associated company of the Group, was HK$ 179 million, of which HK$44.87 million was attributable to the Group. However, Shenzhen High-Tech Holdings Limited, another principal associated company of the Group, recorded a loss of HK$210 million for the year ended 31 December 2000. The Group then shared a loss of HK$55.4 million as a result.

Financial Position

	2000	1999	Increase/ (Decrease)
	HK$ million	HK$ million	%
Total Assets	**3,866**	1,103	251
Current Assets	**1,314**	176	647
Current Liabilities	**(1,374)**	(242)	468
Net Current Liabilities	**(60)**	(66)	(9)
Net Assets	**1,493**	775	93
Net Assets per Share	**HK$0.14**	HK$0.14	–
Cash and Bank Deposits	**675**	56	1,105
Loans and Finance Leases	**403**	238	69
Convertible Bonds	**514**	–	N/A

In March 2000, the Company issued convertible bonds with a principal amount of HK$514 million to Hutchison International Limited, a wholly-owned subsidiary of Hutchison Whampoa Limited. The bonds bear interest at a rate of 4.5% per annum and are convertible into shares of the Company at a conversion price of HK$0.43 per share prior to their maturity on 13 October 2001. Under the present capital structure of the Company, the exercise in full of the convertible bonds will give rise to the issue of shares of the Company which represents approximately 9.72% of the enlarged share capital of the Company. All the net proceeds from the issuance of the convertible bonds will be used to invest in the development of logistics operations of the Group.

As at 31 December 2000, bank and other loans and finance leases of the Group amounted to HK$403 million (1999: HK$238 million), of which 74.0%, 25.8% and 0.2% are due within one year, in the second year and in the third to fifth year, respectively. All these borrowings are denominated in Renminbi, out of which approximately HK$262 million are secured by fixed assets, investment properties and other assets of the Group. Details of these borrowings are set out in notes 26 and 27 to the financial statements.

As at 31 December 2000, the net current liabilities of the Group were HK$60 million. This is mainly attributable to the Group's bank loans in the PRC are generally having terms of one year. In general, the borrowing costs of these short-term loans are lower than that of long term loans and most of which were secured by assets of the Group. Under normal circumstances, these bank loans may be extended on maturity dates at the same terms and therefore the overall financial position of the Group will not be affected.

As at 31 December 2000, the gearing ratio of the Group was as follows:

	2000 *HK$ million*	1999 *HK$ million*
Shareholders' Equity	**1,493**	775
Liabilities:		
Convertible Bonds (fixed rate)	**514**	–
Floating rate borrowings	**403**	238
Non-interest bearing liabilities	**1,025**	83
	1,942	321
Ratio of Total Liabilities to Shareholders' Equity	**130.1%**	41.4%

The Group's ratio of total liabilities to shareholders' equity rose from 41.4% as at 31 December 1999 to 130.1% as at 31 December 2000. Notwithstanding the increase in gearing ratio, the net asset value of the Group as at 31 December 2000 amounted to HK$1.49 billion, representing an increase of 100% over 1999. As a result, the overall assets and liabilities position of the Group is much stronger and solid than that of 1999. Meanwhile, the Group has a cash balance of HK$500 million, which greatly strengthen the Group's financial position and its capability in business development.

Group Reorganization

Disposal of Optometry Business

Year 2000 was the first step of adjustment to development strategies and reorganization of the Group. In addition to the injection of certain assets related to the development of logistics operations, the management continued to rationalize the original asset portfolio, enlarge the earning base and reduce liabilities by realizing assets with limited growth potential and unrelated to logistics business. In March 2000, the Group entered into an agreement with Shenzhen High-Tech Holdings Limited for the disposal of the Group's entire interests in Mings Vision Medical Development (Shenzhen) Co. Ltd., which mainly engaged in the provision of eye and vision care services. In May 2000, the Group also disposed of its entire interest in Hong Kong Optical Company (1989) Limited, a company engaged in optical retailing business which had recorded unsatisfactory performance for the past few years. The disposal of the above businesses generated a gain of HK$67.72 million for the Group while also reduced losses of approximately HK$5 million per year.

Rationalization of Investment Projects Committed in Prior Years

In 2000, the management further realigned the Group's investment projects committed in prior years by appointing specialized teams and clarifying responsibilities of various parties. We also followed up on those projects that had been fully provided for in the financial statements in prior year and affirmative achievement was attained. In connection with the investment in motor vehicles import trading activities in 1998, the management initiated legal actions against the debtor. The court in China made a final judgement stating that the Group was authorized to recover the full amount of claims, of which the deposits of HK$7 million received had been recognized in 2000. It is expected that the balance will be gradually recovered in 2001. In 1998, the Group invested RMB38 million in Man Tai City hydro-electric power plant in Jilin province, the PRC, and the Group's 45% controlling interests in the project have now been finally affirmed. Business registration procedures have also been completed. Meanwhile, an amount of approximately HK$3 million which had been invested in other projects was recovered in 2000. The management will make every effort to recover the Group's losses incurred in prior years in respect of its investment projects.

Disposal and Acquisition of Certain Assets

On 11 September 2000, the Group entered into an agreement with SIHC, pursuant to which the Group disposed of its entire or substantially all of the interests in assets which were unrelated to logistics business and had limited growth potential. The disposed assets included the manufacture of ceramic tiles, the manufacture and sale of chemical products, real estates and the trading of cement. The total consideration for the disposals of these assets was HK$193 million. The disposals of these assets allowed the management to realign its effort and resources with the core business and also reduced the exposure for further capital commitment and loss of the Group.

On 11 September 2000, the Group also entered into an agreement with SIHC for the acquisition of 19.3% equity interests in Shenzhen Freeway Development Company Limited ("Shenzhen Freeway"), a wholly owned subsidiary of SIHC, for a consideration of HK$209 million. The principal asset of Shenzhen Freeway is a 32.49% equity interests in Shenzhen Expressway Company Limited, a company whose H shares are listed in Hong Kong. Shenzhen Freeway is one of the logistics resources owned by SIHC and has a proven track record of profitability. The net profit of Shenzhen Freeway for 1998 and 1999 were RMB118 million and RMB124 million respectively. The reorganization mentioned above presented a valuable opportunity for the Group to invest in a company that is engaged in both logistics related business and high-tech projects and will generate a new source of income. All these can bring about immediate and positive effect to the Group's earnings. Legal formalities for this acquisition were completed on 15 March 2001. Shenzhen Freeway will contribute earnings to the Group in 2001.

Focus of the Group's Future Development – Modern Logistics Services

In 2001, the Company will continue to make use of the resources of SIHC to restructure the Group's business and optimize the deployment of our assets in order to cope with the development of the modern logistics industry. The Company also intends to develop logistics related operations covering ground, marine and air transport.

Management Discussion and Analysis

Analysis of Market Conditions of Logistics Industry

With the global and informational development of the world economy, modern logistics business has been transformed from a traditional industry serving society into comprehensive modern logistics operations supported by modern technologies, management techniques and information systems. Logistics operations nowadays mainly serve the logistics function for corporations and comprise of two major platforms, namely logistics infrastructure and information technologies. Modern logistics systems involve segments like production, liquidity and consumption, thereby becoming the most important industry for the development of the global economy. Logistics operations has been designated as one of the focus of future development in China.

During the period of "Tenth-Five", extensive, integrated, safe, efficient, modern and comprehensive transportation systems will be constructed; major containers transportation systems, specialized bulk cargo transportation systems and outgoing channels of important harbours in major port cities within the coastal region will be strengthened; hub and backbone airports will be improved; and the deployment of technologies and equipment of aviation management will be optimized. The Chinese government will speed up the reform of the transportation management and operating systems through segregation of the public and private sector, fostering the market-oriented development of logistics operations.

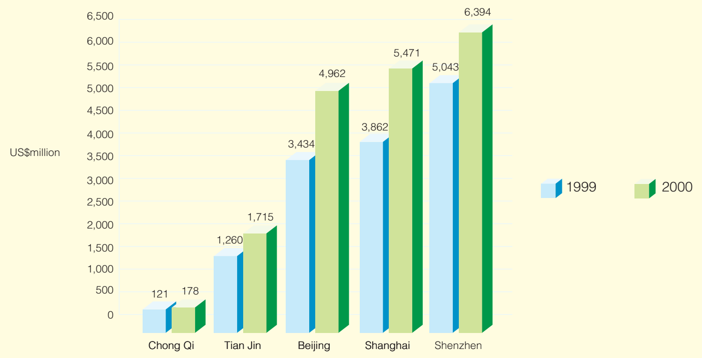
Opportunities for Logistics Operations Generated by the Access of China to the WTO

WTO's rules on cargoes, services, investment and intellectual rights are all related to logistics operations. Once access to WTO is confirmed, logistics operations in China will be open to foreign countries in all aspects and will undergo intensified reformation based on the principles of free, open, equal, fair, transparent and mutual benefits. Access to the WTO will foster the reform in the system of logistics operations in China and the realignment of the structure of the industry and speed up the introduction of foreign capital, logistics technologies and management expertise.

Basis and Advantages for the Development of Modern Logistics Operations in Shenzhen

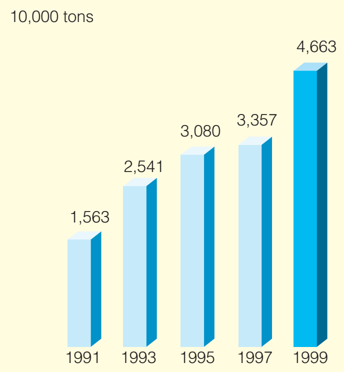
At present, certain developed areas in China with prosperous economic activities qualify for the development of modern logistics operations. Shenzhen, in particular, has experienced 20 years of rapid development in its economy. Shenzhen has an excellent geographical location and it is equipped with a superior deep water bay, a packed highway network, a major aviation base and a sophisticated transportation system comprised of highways, sea transportation and railways. Meanwhile, the annual total value of import and export goods of Shenzhen represents one-seventh of the PRC, putting it up at the top of the country for 8 consecutive years.

Comparative Chart of Import and Export Values for Major Cities in China

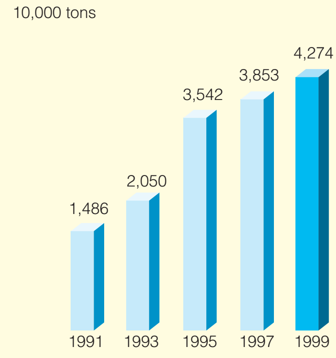


Source: Statistics of Customs Department, PRC

Shenzhen Cargo Handled at Seaports



Shenzhen Freight Traffic



Source: Economic Yearbook of Shenzhen Municipal City

In addition, transportation platforms equipped with integrated modern transportation systems and information systems equipped with postal and telecommunications networks are now basically in place, fostering the emergence of certain modern logistics corporations and the continuous development of wholesale markets and ancillary transportation centers. In May 2000, the Shenzhen Municipal Government announced that logistics operations would be one of the three pillar industries for the economic development of Shenzhen. With the support of comprehensive transportation infrastructure platforms and logistics information platforms, Shenzhen will leverage on its unique connection with Hong Kong and the mainland China to face the international market. All these conditions are beneficial to the evolution of Shenzhen into an integrated international logistics hub based on international and regional logistics operations and supported by ancillary transportation services.

Shenzhen City Logistics District and Cargo Transportation Channel

1. Western Port Logistics District
Collecting and distributing bulk cargoes and transporting goods by containers

2. Yantian Port Logistics District
Transiting and consolidating overseas containers, warehousing and processing

3. Longhua Logistics District
Transiting cargoes for ground transportation centers and connecting transportation by means of containers

4. Pinghu Logistics District
Transiting cargoes and connecting transportation through highway and railway

5. Sungang-Qingshuihe Logistics District
Logistics hub of consumer goods, ancillary transportation center

6. Nanshan Logistics District
Logistics hub of consumer goods

7. Longgang Logistics District
Logistics hub of consumer goods, ancillary transportation center

8. Airport-Baoan Logistics District
Airfreight logistics, freight agency and ancillary transportation

Total Logistics Networks (Shenzhen) Co., Ltd.

On 27 June 2000, the Group partnered with SIHC Networks Investment and Development Co., Ltd.("SIHC Networks"), a subsidiary of SIHC, to establish Total Logistics Networks (Shenzhen) Co., Ltd. ("Total Logistics"). The total investment in Total Logistics was RMB100 million, of which the Group held 70% equity interests and the remaining 30% was held by SIHC Networks. As the largest investment holding institution empowered by the Shenzhen Municipal Government, SIHC owns the largest portfolio of logistics resources in Shenzhen, and will fully support the Group in the development of modern logistics operations. SIHL also undertook that it will not engage in projects that are the same or similar to those of Total Logistics.

Total Logistics commenced operation in September 2000. Since then, Total Logistics has entered into letters of intent regarding logistics operations with various retailers and manufacturers and discussions were also held over investment in certain logistics facilities. After the preliminary stage of operation, Total Logistics has laid solid foundation for the overall future development of its logistics operations.

In November 2000, Total Logistics entered into an agreement with Shenzhen Airport Co., Ltd. ("SZ Airport") to form a joint venture namely, Shenzhen Airport International Express Supervision Center Co., Ltd. ("Express Center"). The registered capital of Express Center is RMB50 million. Each of Total Logistics and SZ Airport contributed RMB25 million (approximately HK$23.57 million) and hold 50% equity interests. Hardware preparation works for the pre-operating stage of Express Center were basically completed. Meanwhile, the design of software, the station arrangement of the customs department and the construction of customs inspection system are all under well progress.

In order to build up a fleet equipped with global monitoring function, Total Logistics purchased a few motor vehicles for ground transportation and installed a GPS satellite positioning system so as to enable it to optimize the control and allocation of the logistics transportation system.

The targets of Total Logistics for 2001 are to complete the investment in and the construction of scheduled projects so as to commence commercial operation shortly; and to build a network system with a fundamental structure based on logistics infrastructure comprising of airports, harbours and ground transportation and supported by logistics information system. Total Logistics also intends to introduce software products for total logistics services through the application of modern network information technologies, the improvement in logistics technologies and the transformation of traditional logistics operations.

In order to secure a leading position in the modern logistics industry in Shenzhen, Total Logistics will further strengthen internal management and improve its corporate structure from time to time so as to expand its operating scale, create a brand name of its own and identify international strategic partners in 2001.

Review of Other Major Businesses

Shenzhen Shentou Transportation Group Co. Ltd.

In March 2000, SIHC duly injected 60% equity interests in Shenzhen Shentou Transportation Group Co. Ltd. ("SSTG") into the Group. The principal activities of SSTG are the provision of transportation services within Shenzhen City and its neighbouring cities. SSTG holds over 3,000 licenses of vehicles for public transportation, including taxis, minibuses, trucks and coaches. According to the data provided by Shenzhen Transportation Bureau, SSTG accounts for 20% of taxi services and 60% of bus services provided in Shenzhen. It also covers over 50% of bus services between Shenzhen City and Guangzhou City.

Management Discussion and Analysis

Upon the completion of the acquisition, turnover and profit attributable to shareholders of SSTG for the nine months period ended 31 December 2000 were approximately HK$558 million and HK$3.1 million respectively. Profit attributable to shareholders decreased by 90% as compared to the audited net profit of HK$30.6 million for the nine months ended 30 September 1999 as published in the circular dated 3 February 2000 for the acquisition of the underlying interest in SSTG by the Group. The main reason for the substantial decrease in profit was that the Group is required to provide for additional depreciation and amortization charges amounted to HK$14.33 million in respect of the surpluses arising from the valuation of fixed assets and taxi licenses after the acquisition. In addition, the oil prices rose for 7 consecutive times throughout 2000, representing an aggregate increase of up to 50%, which increased the operating costs and seriously undermined the profit margin of SSTG.

In 2000, the transportation industry was exposed to the soaring price level of petroleum. Taking into consideration of the policy of replacing official fees with taxation (費改稅政策) to be implemented in Shenzhen shortly, and that the price of petroleum will remain at a high level, it is expected that operating costs of SSTG will continue to be under serve pressure. To deal with the challenges brought about by prevailing operating conditions, SSTG has implemented appropriate measures where it has shortened the replacement cycle of vehicles to upgrade the quality of its vehicles to attract new customers. With respect to operations, SSTG concentrates on the development of direct and express passenger transportation services by introducing new routes and purchasing more coaches, making it the focus of profit growth in future. In addition, SSTG capitalizes on its dominant position to associate with transportation companies outside Shenzhen so as to enlarge its market share. Moreover, it makes every effort to relieve the pressure on operating costs of the transportation industry brought about by the increasing petroleum price by adopting a number of measures, including the strengthening of management, the reduction in costs and the improvement in efficiency. In order to secure the leading position of the Shenzhen Transportation Station, SSTG continues to improve its services and upgrade the service quality of the station.

China Southern Glass Holding Co., Ltd.

China Southern Glass Holding Co., Ltd. ("Southern Glass") is a company listed on the Shenzhen Stock Exchange and is principally engaged in the production of high quality float glass, various kinds of processed glass, materials for new generation monitors and high-tech products such as IT electronic components. The Group presently holds 25% equity interest in Southern Glass and is the single largest shareholder.

With contribution from the management and staff members, Southern Glass registered the best operating results in 2000, during which rapid and excellent growth was attained. Also, Southern Glass underwent a transformation and realignment in 2000, as a traditional corporation revitalising itself with the application of advanced technologies, and in turn laying a solid foundation for its future development.

Turnover of Southern Glass for 2000 was RMB1.164 billion (HK$1.097 billion), representing an increase of 20.5% over 1999. Approximately 41.8% of its products were exported which created foreign currency income of US$56.34 million, representing an increase of 13.7% over 1999. Southern Glass recorded a net profit of RMB189 million (HK$179 million) in 2000, representing a successful return to profitability from a loss position in 1999.

Shenzhen High-Tech Holdings Limited

For the year ended 31 December 2000, Shenzhen High-Tech Holdings Limited ("Shenzhen High-Tech") in which the Group has a 26.67% equity interest, recorded a net loss from ordinary activities attributable to shareholders of approximately HK$209.6 million (1999 : loss of HK$114.3 million). The Group then shared a loss of approximately HK$55.4 million (1999 : loss of HK$32.9 million) as a result. The loss of Shenzhen High-Tech for the year under review was mainly attributable to the provision for diminution in value of properties and investments for a total amount of approximately HK$154 million (1999 : HK$34.8 million), representing 73% of the total loss for the year. The provision as stated above is non-recurring in nature and no further significant provision is expected to be made by Shenzhen High-Tech in the foreseeable future. As Shenzhen High-Tech is seeking opportunities to realize its properties and is focusing its resources and investments on profitable advanced technology-oriented business operations, it is expected that the results of Shenzhen High-Tech will be improved in the future.

With respect to its investment in the high-tech industry, Shenzhen High-Tech entered into an agreement in March 2001 for the acquisition of the entire interests in Dawning Information Industry Company Limited ("Dawning") for a total consideration of RMB215 million which is to be satisfied by the issuance of new shares and convertible notes. The turnover and profit of Dawning witnessed significant growth in recent years and Dawning has secured the leading position in high end server market in China. Since internet is becoming more popular all around the world, servers from Dawning will have plenty of room for further development. It is expected that Dawning will contribute stable income to Shenzhen High-Tech, thereby increasing return to its shareholders.

Hua Li Garden, Shenzhen

Hua Li Garden, a shopping mall located in Shenzhen, is a major investment property held by the Group. The Group's interests include the properties leased to Hua Li Gardens Shopping Mall and the car park basement. For the year ended 31 December 2000, rental income from Hua Li Garden amounted to HK$16.57 million (1999: HK$14.97 million). The investment property is leased to a leading chain department store group in Shenzhen under a long-term lease with an average annual rental increment of approximately 10%. This provides a stable rental income to the Group.

Employees and Remuneration

As at 31 December 2000, the Group employed 20 employees in Hong Kong and 8,460 employees in the PRC. The remuneration packages of Hong Kong staff include salary payments, medical subsidies, hospitalisation scheme and Mandatory Provident Fund retirement benefits.

The Group has established a share option scheme whereby employees of the Group may be granted options to acquire shares of the Company.