



I would like to express my gratitude to shareholders and friends for their interest in and support to the Group. I am pleased to take this opportunity to review the business development of the Group in 2001 and to present a preview on our future development.

ANOTHER RECORD HIGH EARNINGS OF THE COMPANY SINCE ITS ESTABLISHMENT

For the year ended 31 December 2001, turnover of the Group was HK\$492 million (2000: HK\$655 million), representing a decrease of 24.9% over the corresponding period of 2000. Profit attributable to shareholders was HK\$251 million, representing an increase of 124.1% over HK\$112 million in the corresponding period of 2000. This is another record high earnings of the Company since its establishment. Basic earnings per share was HK cents 2.25 (2000: HK cents 1.12). As at 31 December 2001, the total assets and net asset value of the Group were HK\$3.113 billion (2000: HK\$3.866 billion) and HK\$1.791 billion (2000: HK\$1.493 billion) respectively, representing a decrease of 19.5% and an increase of 20% over 31 December 2000 respectively.

PROMISING RESULTS IN THE ACQUISITION OF INFRASTRUCTURE TYPE LOGISTICS ASSETS IN SHENZHEN AND STEADY AUGMENTATION IN ALL BUSINESS UNITS

The year 2001 is the second year in which Shenzhen Investment Holding Corporation ("SIHC") became the controlling shareholder and introduced strategic rationalisation and business restructuring for the Company. With various funding and acquisition arrangements during the year, we acquired the entire interest in Shenzhen Freeway Development Company Limited ("Shenzhen Freeway") from SIHC and thus indirectly controlled 30% interest in Shenzhen Expressway Company Limited ("Shenzhen Expressway"). As a result of these acquisitions, the profitability and quality of assets of the Group were strengthened significantly. These also signified the ability and possibility of the Group in acquiring infrastructure type assets related to logistics business in Shenzhen and the

support and commitment from SIHC to the Group. With the Group's restructuring activities during these periods, the financial position and annual earnings have been stabilised, thereby laying a solid foundation for the future development of the Group.

In 2001, two principal associates of the Group, Shenzhen High-Tech Holdings Limited ("Shenzhen High-Tech") and Shenzhen Expressway, were able to capitalise on the limited opportunities in the capital market by issuing new shares at prices above their respective net asset values in the markets of Hong Kong and China respectively. These funding exercises received overwhelming response from the market and the new shares issued were fully subscribed for by investors. As a result, the Group was able to realise a dilution gain of HK\$109 million, thus enabling the quality and potential value of the assets of the Group to be reflected in the earnings attributable to shareholders.

The economy in China underwent burgeoning development during recent years and this trend continued in 2001. The pace and potential of economic development in China was particularly remarkable when compared with the depressed global economy in last year. All business units within the Group were able to benefit from the economic development in China, bringing about a steady increase in operating profit of which, in particular, Total Logistics (Shenzhen) Co., Ltd. ("Total Logistics") delivered the most encouraging performance. Total Logistics commenced operation in September 2000 and its turnover increased substantially from HK\$2.1 million in 2000 to HK\$30 million in 2001. Total Logistics was not only able to achieve a break-even position but also contributed a net profit of approximately HK\$2.38 million to the Group. The rapid business development of Total Logistics indicates that Total Logistics has its competitive edge in the market and that there is also a great demand for modern logistics services in China. This is yet another demonstration of the persuasive strategic development of the position of the Group.

CHEUNG KONG GROUP BECAME THE SECOND LARGEST SHAREHOLDER OF THE COMPANY

The Group's advantages in the development of modern logistics business and the competency of our management in restructuring the Group's operations and assets have delivered a positive message to the market during the restructuring process in these two years and strengthened investors' confidence in the Group. I am pleased to announce to all shareholders that Cheung Kong Group and Hutchison Whampoa Group have respectively acquired an aggregate of 7.2% equity interest in the Company through the market and become the second largest shareholder and share investor of the Company. The participation of outstanding institutional investors shows their confidence in the development potential of the Group and this strengthens the Group's ability and confidence in the future development of its modern logistics business.

Although the impact of the depressed global economy in 2001 and particularly the September 11 event on the Group's operation was relatively mild, the downturn of the global stock market caused by the September 11 event undermined the stock market as well as the share price of the Company. This inevitably affected the maturity arrangements relating to the HK\$514 million convertible bond issued by the Company to Hutchison Whampoa Limited. In order to avoid the issuance of substantial amount of new shares at a record low share price, the Group redeemed the convertible bond in full at its maturity.

We believe that with our right direction and business development potential, we will be able to attract more outstanding strategic partners and investors once the general investment environment improves, thereby speeding up the development of the Group in future.

INVESTMENT IN "SOUTH CHINA INTERNATIONAL LOGISTICS CENTER" — ESTABLISHMENT OF A MODERN LOGISTICS CENTER IN SHENZHEN

In 2002, the Group, through Shenzhen Freeway, plans to partner with The Passenger and Cargo Transportation Management Center of the Shenzhen Communications Bureau to develop and invest in one of the key projects of the six major logistics districts in Shenzhen, namely South China International Logistics Center.

South China International Logistics Center, with a site area of 550,000 square meters (approximately 6 million square feet), is situated by the side of Meilin check point in Shenzhen and Meiguan Expressway and is just 5 kilometres away from Huanggang Immigration and Customs Control, the largest immigration and customs control in Asia. It will be developed into an international logistics service hub with transportation networks covering Hong Kong, Shenzhen, the delta region of Pearl River and the inland area of China, and is also an intelligent multi-functional logistics center providing services including warehousing, transportation, delivery, customs clearing, containers loading and unloading and warehouse processing. An exchange platform and transfer station for importing and exporting containers will also be built within the center. This is a unique service of its kind in the Shenzhen/Hong Kong area and will serve to provide flexibility in allocating appropriate cargo volume to container transportation vehicles in China and Hong Kong with different destinations. This will significantly improve the efficiency of container transportation between Hong Kong, Shenzhen and the delta region of Pearl River and establish a highly effective container transferring and forwarding services within the region.

The first phase of investment in South China International Logistics Center amounted to RMB200 million, and it is expected that the Group will hold not more than 50%



interest. The total investment will be RMB900 million, which will be injected within 4 years by instalments. The first phase of the project will be completed and put into operation in 2003. It is anticipated that South China International Logistics Center will be completed and ready for full operation in 2005, upon which it will become another income source of the Group.

**ESTABLISHMENT OF A BUSINESS SYSTEM
EQUIPPED WITH AIRPORTS, HARBOURS AND
LAND LOGISTICS RESOURCES AND
INFRASTRUCTURE PROJECTS, AND
SUPPORTED BY LOGISTICS INFORMATION
PLATFORMS AND SUPPLY CHAIN
MANAGEMENT TECHNIQUES**

With the global and informational development of the world economy, a modern logistics system will become an indispensable asset in the new development trends of the world. Following the formal accession of China into the World Trade Organisation (“WTO”), it is expected that the annual growth rate of logistics business in Asia will be over 40% in the next 5 years and that China will become the country registering the fastest development

in the region with an annual growth rate higher than those of other Asian countries by more than 100%. Logistics business is one of the three pillar industries in Shenzhen. Based on the enormous demand for modern logistics services arising from the rapid economic development in Shenzhen, Shenzhen has become an important regional logistics center in China.

We will strive to capitalise on opportunities brought by the unique and dominant position of SIHC to take an active role in participating in the four main sectors of modern logistics business in Shenzhen, including infrastructure, transportation systems, logistics and ancillary services and logistics information and e-commerce services, in order to establish a business system equipped with airports, harbours and land logistics resources and infrastructure projects, and supported by logistics information platforms and supply chain management techniques. While it is expected that the Group will be able to benefit by business opportunities brought about by China’s entry into the WTO, we will also equip ourselves to prepare for the competition brought by other major multinational corporations thereafter.