Management Discussion and Analysis

REVIEW OF RESULTS

For the six months ended 30 June 2002 (the "Period"), the Group's unaudited profit attributable to shareholders was HK$263 million (2001: HK$112 million), representing an increase of 1.35 times over the corresponding period of 2001. Turnover of continuing operations of the Group, and the share of turnover of associates and jointly-controlled entities, was HK$262 million (2001: HK$149 million), representing an increase of 76% over the corresponding period of 2001. Profit from operating activities was HK$216 million (2001: HK$115 million), representing an increase of 87.8% over the corresponding period of 2001. Basic earnings per share was HK cents 2.34 (2001: HK cents 1.01), representing an increase of 1.32 times over the corresponding period of 2001. As at 30 June 2002, total assets and net asset value of the Group were HK$3,596 million (2001: HK$3,113 million) and HK$2,054 million (2001: HK$1,791 million), representing an increase of 15.5% and 14.7% when compared with those as at 31 December 2001 respectively.

In the first half year of 2002, the Group focused on strengthening its existing operations and streamlining its internal management. Following the assets reorganisation and internal restructuring exercises in the past two years, the quality of assets and profitability of the Group have been improved continuously. During the period under review, the Group's core business grew steadily along with the economic development of China. Total Logistics (Shenzhen) Co., Ltd. ("Total Logistics") recorded a turnover of HK$26.64 million (2001: HK$4.2 million) and the substantial increase was mainly attributable to the rapid development of the logistics industry and the tremendous increase in import and export trading volume of Shenzhen City during the Period. Total Logistics recorded a profit after taxation of HK$2.11 million (2001: loss of HK$830,000). In addition, the Group increased its equity interest in Xin Tong Chan Development (Shenzhen) Co., Ltd. (formerly known as Shenzhen Freeway Development Company Limited, "XTC Development") which became a wholly-owned subsidiary of the Company and the effect of such acquisition was fully reflected in the Group's results during the Period. In February 2002, the Group's equity interest in XTC Development increased to 100% (from an accounting perspective) when compared with 19.3% for the same period of last year. Consequently, the profit of Shenzhen Expressway Company Limited ("Shenzhen Expressway"), a principal associate in which the Group held 30% equity interest, was fully reflected during the Period and contributed a profit after taxation of HK$54 million (2001: HK$7 million) to the Group.

On 2 April 2002, the Group completed the subscription of 50 million A shares in China Merchants Bank Co., Limited ("CMB") which are listed on the Shanghai Stock Exchange at a price of RMB7.3 (HK$6.88) per share through XTC Development. The total investment cost amounted to RMB365 million (HK$344 million). The CMB A shares are subject to a lock-up period of 12 months and are restricted from trading until the lock-up period expires on 9 April 2003. In accordance with currently applicable accounting standards, the Group accounts for the CMB A shares at their market value. As the share price of these A shares increased substantially following its initial listing, the market price of the CMB A shares was RMB11.5 per share on 30 June 2002, thus bringing an investment profit after taxation of HK$190 million to the Group for the Period. The gain on investment holding for the corresponding period of 2001 was HK$93 million, which mainly comprised of gain on disposal of portion of B shares in CSG Technology Holding Co., Ltd. ("CSG") amounted to HK$45.73 million, and the dilution gain arising from the issue of additional shares by Shenzhen High-Tech Holdings Limited ("Shenzhen High-Tech") amounted to HK$48.19 million. Since the investment profit from CMB A shares accounted for a substantial portion of the Group's profit attributable to shareholders during the Period, the profit of the Group for the whole year of 2002 will be affected by the change in share price of CMB as at 31 December 2002. On 16 September 2002, the share price of CMB was RMB10.1 per share, representing a decrease of 12% when compared with that of 30 June 2002.

Management Discussion and Analysis

The profit attributable to shareholders of CSG, a principal associate of the Group, was HK$79.74 million (2001: HK$53.16 million) for the Period, out of which HK$19.36 million (2001: HK$12.91 million) was attributable to the Group and represented an increase of 50%. The increase was mainly attributable to a one-off provision for impairment of HK$23.85 million for certain fixed assets of CSG during the corresponding period of 2001 and this is not recurred during the Period. Another associate of the Group, Shenzhen High-Tech, recorded a loss of HK$34.11 million (2001: profit of HK$10.96 million) during the Period and the Group shared a loss of HK$7 million (2001: profit of HK$2.31 million) as a result.

STRENGTHENING LOGISTICS RESOURCES PORTFOLIOS WITHIN THE GROUP TO ENHANCE MARKET COMPETITIVENESS

During the first half year of 2002, the development of the global economy slowed down continuously. This exerted adverse impact to the capital market and indirectly affected the investment schedule of the Group. Nevertheless, China maintains vigorous economic growth. According to the latest statistical data issued by the Statistic Bureau of Guangdong Province, Shenzhen City has become the strongest city in economic development within Guangdong Province. In respect of import and export trading, Shenzhen City takes the pole position in Guangdong Province continuously and that has a very positive impact for the development of logistics industry. The Group takes full advantage of these positive factors to speed up the development of its core business in Total Logistics through acquisition of related enterprises with high potential. During the period under review, the Group acquired certain quality logistics assets which included 50% equity interest in Guangzhou Changyun Total Logistics Co., Ltd. ("Guangzhou Changyun"), 39% equity interest in Shenzhen Container Transportation EDI Co., Ltd. ("Shenzhen EDI") and 10% equity interest in Shenzhen Airlines. These acquisitions strengthened the logistics resources portfolios within the Group and will enhance the market competitiveness of Total Logistics in the PRC.

INVESTMENT IN "SOUTH CHINA INTERNATIONAL LOGISTICS CENTER" TO ESTABLISH NEW CROSS BORDER TRUCKING BUSINESS MODEL

As mentioned in the Group's 2001 annual report, the Group, through XTC Development, entered into an agreement with The Passenger and Cargo Transportation Management Center ("Transportation Center") of the Shenzhen Communications Bureau in July 2002 to jointly invest and develop one of the key projects of the six major logistics districts in Shenzhen City, namely South China International Logistics Center. South China International Logistics Center enjoys overwhelming advantages in terms of geographic location and information technology, upon which a new business model of international cargo transfer center under the supervision of customs authorities will be introduced. The model comprises of an information exchange and control network connecting consignors, terminals in Hong Kong, shipping companies, cargo agents, truck operators, customs authorities, banks and insurance companies through exclusive information lines, internet and EDI systems. These form a brand new Cross Border Trucking Business Model ("CBTB"). With an exchange platform and transfer station for importing and exporting containers of Hong Kong and Shenzhen City, CBTB enables cross border and locally registered motor vehicles to perform full strengths of preeminence and economy of scale of their own. The number of empty containers can be reduced while the traffic congestion in border check points can be soothed, thus forming a model for large scale exclusive transportation routes and changing the traditional transportation pattern of Hong Kong, eastern and western harbour districts of Shenzhen City, which are relatively independent for years. A highly efficient logistics network for importing and exporting goods will be established eventually. In addition to the core CBTB business, South China International Logistics Center is also a multi-functional intelligent logistics center providing other services including supervised warehouse for exporting goods, duty bonded warehouse for importing goods, processing, customs declaration, insurance and trade fairs.

Management Discussion and Analysis

The first phase of investment in South China International Logistics Center amounted to RMB222 million. Each of the Group and Transportation Center shall inject RMB111 million and holds 50% equity interest. The first phase of the project is expected to be completed and put into operation by the end of 2003. The anticipated total investment amount for the whole project is RMB900 million. The difference between the total investment amount and the above RMB222 million shareholders' injection will be raised through appropriate channels according to funding requirement by the end of 2005. Save as the above investment amount of RMB111 million, the Group has no further capital commitment in respect of South China International Logistics Center. It is expected 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.

STUDY THE INVESTMENT IN ANOTHER KEY PROJECT OF THE SIX MAJOR LOGISTICS DISTRICTS IN SHENZHEN CITY — WESTERN PORT LOGISTICS DISTRICT

In addition to the investment in South China International Logistics Center, the Group is also studying the possibility to invest in another key project of the six major logistics districts in Shenzhen City, namely Western Port Logistics District.

Western Port Logistics District is situated in Nanyou Warehousing District in Shekou, and located in the centre of the three major ports of Shekou, Chiwan and Mawan. It connects Pingnan Railway and Guangshen Expressway to the north, the western corridor between Shenzhen City and Hong Kong (under construction) to the east and the estuary of Pearl River and the intended Da Chan Wan (大鏟灣) district to the west. The geographical location of which is strategically outweighing. The logistics district occupies a planned site area of 2.6 square kilometers and is the only mass and large-scale terrain for logistics purpose in the hinterland of the western port district of Shenzhen City. Western Port Logistics District relies on the convenient and advanced mass transportation system comprising of ports, urban trunk lines, expressways and railways, and also plans to focus on the development of international transfer business, collection and distribution of bulk cargoes from sea and land, containers transferring, loading and unloading, customs inspection, transiting and delivery services. Western Port Logistics District is able to serve all the developed areas and logistics collection and distribution points within the entire Pearl River Delta Region. The coverage area can also be extended to the central south and south western part of the mainland so as to cope with the development of inland river transportation between the Pearl River Delta region and western ports of Shenzhen City. Western Port Logistics District can provide feed-up services to approximately forty existing international shipping routes of western ports.

It is expected that the first phase of investment in Western Port Logistics District is RMB300 million and the Group will have 20% equity interest. With preeminent geographical location, the Western Port Logistics District will become a strategic base connecting main and branch lines of logistics activities. It is also able to perform functions among different kind of transportations, warehousing and matching. The Western Port Logistics District will be developed as a hub logistics center focusing on bulk and miscellaneous cargoes and linking up the mainland and overseas, thereby streamlining logistics processes and enabling efficient logistics operation.

PROSPECTS

Looking ahead, the continuous economic growth of the PRC will promote the overall development of the logistics industry. Shenzhen district will take the pole position amongst various provinces and cities in China to enjoy the fastest growth in logistics business. Following the entry into the World Trade Organisation, China further liberalised its policies, including upward adjustment of equity interest held by foreign investors in the transportation

infrastructure industry, and the withdrawal of certain restrictions imposed on foreign investors by the securities legislation in China. All these measures are expected to be beneficial to the Group. The Group will capitalise on advantages brought by the economical liberalisation and development of China and the effect of liberalised policies to speed up the 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.

The principal activities of the Group and their performance during the Period are analysed as follows:

LOGISTICS AND RELATED BUSINESSES

Total Logistics (Shenzhen) Co., Ltd. (“Total Logistics”)

During the Period, turnover of Total Logistics was HK$26.64 million (2001: HK$4.2 million), representing an increase of 5.34 times. Profit after taxation was HK$2.11 million (2001: loss of HK$830,000). Turnover of Total Logistics was mainly derived from agency services of ancillary transportation of cargoes, of which 52%, 39% and 9% was by air, land and sea respectively. Revenue of Total Logistics’ core business enjoyed continuous growth which was mainly driven by focussing on traditional logistics services, and expanding its market share by gradually introducing transportation, warehousing and electronic logistics system into the market. Total Logistics also expands its business from providing basic services to a comprehensive logistics service provider and continues to improve its capabilities and upgrade its service quality.

The rapid growth of land transportation business of Total Logistics was mainly attributable to the increase of major clients in the Period. These include CSG, Jiangzhong Pharmacy Group (Holding) Company Limited (江中製藥集團(股份)有限公司) and Shenzhen B&Q Decoration & Building Material Co., Ltd. (“B&Q”). B&Q is the third largest operator of modern construction and decoration materials in the world and Total Logistics has been appointed as B&Q’s logistics service provider of ancillary transportation for procurement, outlets and consumers delivery along with its market development in southern China. In addition, Total Logistics also intends to provide similar comprehensive logistics services to over ten outlets of B&Q in Shenzhen, Guangzhou and southern China basing on a standardized service model. Meanwhile, Total Logistics has set up a branch network connecting Shanghai, Kunming, Guangzhou, Zhengzhou, Dongguan and Huizhou, and other domestic networks are also in gradual establishment in line with clients’ demand and operational requirements. With respect to its supervised airfreight transportation business between Shanghai, Shenzhen, Hong Kong and overseas, Total Logistics endeavors to secure supports from customs authorities for its operation and satisfactory result was obtained. As a result, Total Logistics is now the only domestic logistics service provider capable of providing supervised airfreight transportation for both of importing and exporting cargoes.

During the Period, turnover and profit attributable to shareholders of Shenzhen Airport International Express Supervision Center Co., Ltd. (“Airport Express Center”), of which Total Logistics has 50% equity interest, were HK$20.96 million and HK$11.45 million respectively and representing increases of 24.4% and 1.2 times when compared with the period between its commencement of operation in June 2001 and 31 December 2001. During the first half year of 2002, the express cargo volume handled by Airport Express Center totalling 49,200 tons, of which 38,500 tons were export cargo and the remaining 10,700 tons were import cargo. Despite it only commenced operation for one year only, the equipment and service quality of Airport Express Center improves continuously. The promising customs declaration procedures, investment and co-ordination functions of Airport Express Center have been well acknowledged by the courier companies stationed therein. In particular, the operating environment for import express cargo

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has been improved significantly, thereby increasing the import express cargo handling volume by 7 times when compared with that of 2001. The second half of the year is the peak season of Airport Express Center, and it is expected that the business volume will be higher than that of the first half of the year. It is anticipated that the express handling volume of the second half of the year will be approximately 57,500 tons and the annual volume will reach 106,700 tons in total.

Total Logistics acquired 10% equity interest in Shenzhen Airlines (深圳航空有限責任公司) at a consideration of RMB34,325,012 (HK$32,382,087) and the relevant legal procedures had been completed in June 2002. During the Period, turnover and profit attributable to shareholders of Shenzhen Airlines increased by 28.6% and 6.6% when compared with those of the corresponding period in 2001. With the arrival of peak season of passenger transportation in the second half of the year, it is expected that the business volume and profit of Shenzhen Airlines will be higher than those of the first half of the year. Besides, Total Logistics has entered into an agreement for the acquisition of 100% equity interest in Beijing Whole Course Logistic Service Co., Ltd. ("Beijing Logistic") which is a qualified international shipping agent as well as international airfreight agent and is eligible for setting up branches. Beijing Logistic is strategically important for the development of Total Logistics' international cargo transportation agency business.

Xin Tong Chan Development (Shenzhen) Co., Ltd. (formerly known as Shenzhen Freeway Development Company Limited, "XTC Development")

The Group completed the acquisition of 76.8% equity interest in XTC Development in 2001 (from an accounting perspective). In order to intensify the Group's investment in quality infrastructure and logistics assets in Shenzhen City, the Group entered into an agreement with Shenzhen Investment Holding Corporation ("SIHC") on 20 December 2001, pursuant to which the Group acquired the remaining 23.2% equity interest in XTC Development at a consideration of RMB350 million (approximately HK$330 million). The transaction was approved by shareholders of the Company in a special general meeting held on 31 January 2002. According to accounting standards applicable to the Group, XTC Development became a wholly-owned subsidiary of the Group on that date. All the relevant legal formalities had been completed on 10 September 2002. During the Period, profit after taxation of XTC Development was HK$54 million (2001: share of profit after taxation of XTC Development was HK$7 million) which is mainly attributable to the profit contribution from Shenzhen Expressway, a principal associate of which the Group held 30% equity interest. During the Period, turnover and profit attributable to shareholders of Shenzhen Expressway were HK$236 million (2001: HK$207 million) and HK$188 million (2001: HK$190 million) respectively, representing an increase of 14% and a slight decrease of 1%. The main reason for the decrease of profit attributable to shareholders was that Shenzhen Expressway and one of its subsidiaries commenced to incur PRC enterprise income tax at a rate of 7.5% with effect from 2002.

During the Period, the toll road operations of Shenzhen Expressway sustained continuous growth and were its reliable source of cash flow and profit growth. Meiguan Expressway and Jihe Expressway have become the main sources of continuous profit growth of Shenzhen Expressway. Despite the slight diversion effect brought by the new Shuiguan Expressway, the traffic volume and toll income of Meiguan Expressway increased by 23.65% and 19.19% respectively when compared with those of the corresponding period of 2001. On the other hand, the growth rate of the traffic volume and toll income of the eastern section of Jihe Expressway were 9.65% and 6.61% respectively, which had been undermined by the diversion effect of Shuiguan Expressway. The western section of Jihe Expressway enjoys a rapid growth period, of which the traffic volume and toll income significantly increased by 34.64% and 33.67% respectively. It recorded the highest growth rate amongst various toll roads of Shenzhen Expressway in 2002.

Management Discussion and Analysis

In the first half year of 2002, Shenzhen City was still one of those cities delivering the fastest economic growth in the PRC. The fast growing economy of Shenzhen City brought about a substantial growth in number of private vehicles. The private vehicles ownership ratio rose from 7 vehicles per 100 households in year 2000 to 18.5 vehicles per 100 households this year. The rapid economic growth and the substantial growth in the number of private vehicles in Shenzhen City guarantee a reliable and steady market demand for toll roads of Shenzhen Expressway. On the other hand, the investment of Shenzhen City for the construction of approximately 270 kilometers of expressway will amount to over RMB20,000 million in the coming 10 years. Shenzhen Expressway will make full use of its first right of refusal for the construction of expressway in Shenzhen City to expand its toll road operations. Shenzhen Expressway is carrying out the feasibility study for the construction of Yanpai Expressway which is between Yantian Port and Paibang Interchange (east of Jihe). The length of Yanpai Expressway will be about 13 kilometers and the total investment cost will be approximately RMB989 million (HK$933 million).The feasibility study of Yanpai Expressway has been appraised by Guangdong Provincial Communications Department and the construction of which is expected to commence in late 2002 or early 2003.

INFORMATION AND HIGH-TECH RELATED MANUFACTURING BUSINESS

CSG Technology Holding Co., Ltd. ("CSG")

During the Period, turnover and profit attributable to shareholders of CSG were HK$462 million (2001: HK$454 million) and HK$79.74 million (2001: HK$53.16 million) respectively, representing increases of 1.8% and 50%. The increase in profit attributable to shareholders was mainly attributable to a one-off impairment provision for certain fixed assets of HK$23.85 million arising from the adoption of new accounting policies by CSG in the corresponding period of 2001. Barring the factor mentioned above, the profit of CSG increased by 3.5%, of which HK$19.36 million (2001: HK$12.91 million) was attributable to the Group.

Following the entry of China into the World Trade Organization, the market in the PRC has been liberalized, basically rendering no more barrier to foreign corporations and manufacturers who intend to secure their foothold in China. As a result, product prices are lower whereas product quality increases, product cycle are shorter and there are more market competitors. In order to cope with the changes in market condition, CSG affirms its philosophy of enabling a traditional industry to produce quality products. With the 7.8% economic growth rate recorded in the PRC in the first half year of 2002 and pricing adjustment in the market, the sales volume of CSG grew continuously. The promising results of CSG during the Period were also attributable to the price reduction of raw materials and electricity charges.

During the Period, the third production line for ITO electricity conductor coating of CSG has been put into operation. In respect of engineering glass products, the productivity of various product lines were expanding significantly. In June 2002, Tianjin CSG Architectural Glass Co., Ltd. was duly established. The anticipated investment amount was RMB400 million, of which CSG owns 61% equity interest. It intends to produce environmental friendly and energy saving high-tech products, namely low radiation engineering glass. The trial production will commence in the fourth quarter of 2003 to meet the market demand of northern China and the construction projects of Beijing Olympic Game. All these measures will enhance the comprehensive productivity and competitiveness of CSG, thereby further strengthening its profitability.

Shenzhen High-Tech Holdings Limited ("Shenzhen High-Tech")

During the Period, turnover of Shenzhen High-Tech was HK$68.92 million (2001: HK$58.90 million), representing an increase of 17%. Loss attributable to shareholders was HK$34.11 million (2001: profit of HK$10.96 million), of which approximately HK$7 million (2001: profit of HK$2.31 million) was attributable to the Group. The loss of Shenzhen High-Tech was mainly resulted from Dawning

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Information Industry Company Limited ("Dawning"). Dawning suffered from the deteriorating business environments and keen competition of the server market in the PRC. The price of servers kept on going down and despite the increase in sales volume of Dawning over the corresponding period of 2001, the declining profit margin contributed to the loss incurred by Dawning for the Period.

With traces of recovery for the global economy, confidence for individual spending and corporate investment is stronger. It is expected that the operating conditions will be better in the second half of 2002. Dawning will implement further programmatic cost cutting measures to improve its operating efficiency and product quality so as to enhance its competitiveness and achieve promising results.

The construction of Dawning Tower by Dawning in Shenzhen High-Tech Park had been completed on 2 August 2002. Dawning Tower is primarily the research and development centre of Shenzhen High-Tech and will be ready for occupation in October 2002. All office spaces available for leasing in Dawning Tower have been fully occupied and it is expected that stable rental income will be contributed to Shenzhen High-Tech.

PROPERTY INVESTMENT

Hua Li Garden, Shenzhen

During the Period, the net rental income of Shenzhen Hua Li Garden, a major investment property held by the Group, was approximately HK$9.89 million (2001: HK$9.43 million), representing an increase of approximately 5%. The investment property is leased to a leading chain department store group in Shenzhen under a long-term lease. This provides a stable and continuous rental income to the Group.

FINANCIAL POSITION

	30 June 2002 HK$ million	31 December 2001 HK$ million	Increase/ (Decrease) %
Total Assets	**3,596**	3,113	16
Current Assets	**929**	478	94
Current Liabilities	**(496)**	(472)	5
Net Current Assets	**433**	6	7,117
Net Tangible Assets	**2,209**	1,945	14
Net Assets	**2,054**	1,791	15
Issued Share Capital	**1,122**	1,122	—
Net Assets per Share	**HK$0.18**	HK$0.16	13
Cash and Bank Deposits	**316**	305	4
Bank Loans and Other Borrowings	**1,049**	888	18
Due to Controlling Shareholder (proposed issue of a non-interest bearing convertible note)	**330**	—	N/A
Net Borrowings	**(483)**	(444)	9

As at 30 June 2002, the Group's current assets rose by 94% as compared to 2001. This is mainly attributable to the Group's subscription for 50 million listed A shares in CMB at a cost of HK$344 million. The subscription of shares in CMB intensified the Group's other investment and in accordance with applicable accounting standards, the Group accounts for the shares in CMB at market value which resulted in an increase in current assets by approximately HK$450 million. Consequently, the Group's total assets and net current assets were increased significantly. Combined with the profit contribution of the Group during the Period and that there was no change in issued share capital, the net asset value per share of the Group increased by approximately 13%.

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As at 30 June 2002, bank loans and other borrowings of the Group amounted to HK$1,049 million (as at 31 December 2001: HK$888 million), of which 35%, 64% and 1% is due for repayment in the first year, the second and the third year and after respectively. The increase in bank loans and other borrowings was mainly attributable to the utilisation of the Group's standing banking facilities. Such amounts were applied for working capital and future investment purposes. These borrowings were mainly Renminbi denominated loans from banks and other institutions in the PRC. Since the business of the Group are mainly operated in the PRC, revenue and cash flow are mainly denominated in Renminbi, thereby minimising exchange exposures.

Approximately HK$232 million of the total borrowings of the Group are secured by the Group's investment properties and other assets, details of which are set out in note 11 to the condensed financial statements.

The Company intends to issue a five-year non-interest bearing convertible note (the "Note") with a principal amount of HK$330 million to its controlling shareholder, SIHC, to finance the consideration for the acquisition of the remaining 23.2% equity interest in XTC Development. The Note was issued on 1 August 2002 pursuant to the terms of the acquisition agreement and the memorandum and articles of association of the Company.

As at 30 June 2002, the ratio of net borrowings to shareholders' equity of the Group was as follows:

	30 June 2002 HK$ million	31 December 2001 HK$ million
Shareholders' Equity	**2,054**	1,791
Cash and Cash Equivalents		
Cash and Bank Balances	**316**	305
Short Term Listed Investments	**580**	139
	896	444
Total Borrowings		
Short Term Bank Loans	**110**	129
Short Term Loans and Others	**255**	276
Long Term Bank Loans	**415**	237
Other Long Term Loans	**269**	246
Due to Controlling Shareholder (proposed issue of a non-interest bearing convertible note)	**330**	—
	1,379	888
Net Borrowings	**483**	444
Ratio of Net Borrowings to Shareholders' Equity	**24%**	25%

The Group's ratio of net borrowings to shareholders' equity decreased from 25% as at 31 December 2001 to 24% as at 30 June 2002. The slight decrease in this ratio was mainly attributable to the substantial appreciation in value of the investment in 50 million A shares of CMB amounting to HK$190 million during the Period. Moreover, the Group issued a long-term convertible note with a principal amount of HK$330 million for the acquisition of the remaining 23.2% equity interest in XTC Development and raised new bank borrowings for working capital and future investment purposes. These financing activities increased the total borrowings of the Group by 55% during the Period. Taking into account of the above effects, the Group's ratio of net borrowings to shareholders' equity recorded slight changes.

Management Discussion and Analysis

Currently, the Group has available cash surplus and standing banking facilities totaling HK$900 million, which can be applied to the Group's working capital and capital expenditure in future. Funding for the Southern China International Logistics Center and the acquisition of Shenzhen Airlines will be due for payment in the second half of 2002 and it is expected that sufficient funding are available. The Group reviews its capital structure regularly with a view to working out the most efficient funding channels, thereby providing shareholders with the highest investment return.

EMPLOYEES

As at 30 June 2002, the total number of employees of the Group was 220, comprising 20 employees in Hong Kong, the majority of whom were management and finance personnel, and 200 employees in the PRC, 160 of whom served in the logistics operation and the remaining served in investment management and property management. The employees' remuneration packages are determined by their respective qualification, experience and performance, and also by reference to market terms. The remuneration packages of Hong Kong staff include salary payments, year end bonus, medical subsidies, hospitalisation scheme and Mandatory Provident Fund retirement benefit scheme. The remuneration packages of PRC staff include salary payments, year end bonus and retirement funds, etc.

The Company has established a share option scheme whereby employees of the Group may be granted options to acquire shares in the Company. The Group provides its employees with professional training programmes focusing on information technology, legislations and business related programmes.