

**Chairman's
Statement**



I would like to express my gratitude to shareholders and friends for their interest and continuous support to the Group. I am pleased to take this opportunity to review the business development of the Group in 2002 and to present a preview on our future development.

ANNUAL RESULTS

For the year ended 31 December 2002 (the "Year"), turnover of continuing operations of the Group, together with the Group's share of turnover of associates and jointly controlled entities, amounted to HK\$621 million (2001: HK\$522 million) and represented an increase of 19% over the corresponding period of 2001. Profit attributable to shareholders was HK\$155 million (2001: HK\$251 million), a decrease of 38% over that of 2001. Basic earnings per share was HK cents 1.38 (2001: HK cents 2.25). As at 31 December 2002, total assets and net asset value of the Group were HK\$3,406 million (2001: HK\$3,113 million) and HK\$1,944 million (2001: HK\$1,791 million) respectively, both representing increases of 9% over those of 31 December 2001.

After three years of asset consolidation and internal restructuring, the quality of the Group's assets and earnings has been gradually improved. Turnover and profit before taxation of the Group's logistics and related business for the Year were HK\$93 million (2001: HK\$31 million) and HK\$171 million (2001: HK\$128 million) respectively, representing increases of 200% and 34% over those of 2001. During the Year, investment holding business contributed a profit of HK\$24 million (2001: HK\$134 million) to the Group. However, the profit from investment holding business in 2001 included a total amount of approximately HK\$148 million which were derived from the disposals of discontinued operations and partial interests in associates and were of a one-off, non-recurring nature. In addition, the Group shared a loss of Shenzhen High-Tech Holdings Limited of approximately HK\$37 million for the Year. These factors caused the decrease in profit attributable to shareholders for the Year. Notwithstanding the above, the operation and cash flow of the Group's core business have been growing steadily and this indicates that the Group is marching towards a positive development path.

STRENGTHENING LOGISTICS RESOURCES AND OPTIMISING ASSETS OF THE GROUP

During the Year, the Group implemented the asset restructuring and optimisation plan stipulated in 2001 and remarkable result has been achieved. With the continuous efforts of the management of the Company and the support from the controlling shareholder, Shenzhen Investment Holding Corporation ("SIHC"), the Group completed a series of investments and acquisitions in 2002. Infrastructure type logistics-related businesses and assets in Shenzhen City were injected into the Group during the Year. The asset structure and business model of the Group have been gradually building up and optimised.

In 2002, the Group invested an aggregate amount of HK\$560 million in its core logistics business. These investments include projects or assets which are quality logistics resources in Shenzhen City. During the Year, the Group confirmed its investment in two key projects of the six major logistics districts in Shenzhen City. These include 50% interest in South China International Logistics Center and 20% interest in Western Port Logistics District. Both of them are key projects in the logistics industry and play an important role in the future development of modern logistics industry of Shenzhen City. These projects will also become the pillar assets and new sources of income growth of the Group in coming years.

During the Year, the Group increased its stakes in two subsidiaries which are principally engaged in the Group's core logistics business, namely Xin Tong Chan Development (Shenzhen) Co., Ltd. ("XTC Development") and Total Logistics (Shenzhen) Co., Ltd. ("Total Logistics") and both of them became wholly-owned subsidiaries of the Company. XTC Development has stable earnings and cash flow while on the other hand Total Logistics has high growth potential. As a result of these acquisitions, the Group has structured a well balanced growth on short and medium term earnings and cash flow. In addition, with the acquisitions of other quality logistics assets such as 10% interest in Shenzhen Airlines and 39% interest in Shenzhen EDI Co., Ltd., the Group was able to accomplish the development strategy of Total Logistics in a more efficient way, thereby further strengthening the logistics resources within the Group and enhancing the competitive edge of the Group in the PRC market.

STRENGTHENING THE GROUP'S POSITION IN LOGISTICS INDUSTRY IN SHENZHEN CITY

Since SIHC became the controlling shareholder of the Company in February 2000, the management of the Company has gone through a three phase evolution within these three years.

In the year 2000, the Group focused on identifying the direction of strategic development and the disposals of non-core businesses with limited growth potential in order to rationalise the structure of its assets. In 2001, the main task of the Group was to identify and adopt the restructuring proposal, to further consolidate the business and to speed up the research and negotiation of the asset restructuring plan. In 2002, the Group executed the restructuring plan adopted last year through a series of acquisitions and investments.

The past three years enable the Group to identify its development direction and to rationalise its business as well as acquisition of assets during which a new business system has been established. The Group is able to secure a foothold in the logistics industry of Shenzhen City, a window city in the PRC. Through its

wholly-owned subsidiaries, Total Logistics and XTC Development, the Group is capable of developing third party logistics services as well as information systems, transportation systems and logistics hubs. The Group's existing business progresses well and is able to provide a stable earning and cash flow.

In 2003, the Group will focus on strengthening the management of its existing logistics resources as well as consolidating existing assets and operation flow to ensure the Group's resources are allocated in the most efficient way. The Group will also strive to reinforce its controls over various sections of logistics business and to provide quality and customised services to foster a close and strategic co-operation relationship with customers and gradually develop an unparalleled competitive edge for the Group. These measures will enable the Group to achieve promising results and also strengthen the Group's position in the logistics industry in Shenzhen City to maximise investment return to its shareholders.



CORPORATE GOVERNANCE

The Group has been committed to a high standard of corporate governance in order to ensure a healthy and reliable corporate management system to protect shareholders' interest. During the Year, the Company has obliged to the adopted corporate governance practice and the management of the Company has taken an active role to explore and implement appropriate measures so as to strengthen the internal control system of the Group and to improve the standard of the Group's corporate governance. These ensure an efficient deployment and added value of the Group's assets, thereby providing comprehensive protection to shareholders' interests.

OFFSETTING ACCUMULATED LOSSES FULLY BY CAPITAL RESTRUCTURING PROPOSAL AND TO CONSIDER DIVIDEND DISTRIBUTION TO SHAREHOLDERS NEXT YEAR

With three years of assets restructuring, the Group's recurring earnings and cashflow have become stable and lay a solid foundation for dividend payment in the future. In the forthcoming special general meeting, the Company will propose to the shareholders for the approval of a reduction of approximately HK\$515 million from the share premium account of the Company and the amount arising be applied to offset the accumulated losses of the Company in full. This will enable the declaration of dividend when the Company has distributable profit in the future and when the board of directors considers appropriate. This capital restructuring proposal will increase the corporate value of the Company, enable the Company to distribute dividend to shareholders for their continuous support and will have a positive effect in attracting potential investors. This proposal will not have any adverse impact on the assets, business operation and management of the Company. The directors desire to declare dividend in 2004.

CAPITALISING OPPORTUNITIES OF INVESTING AND DEVELOPING LOGISTICS BUSINESS WITH REMARKABLE POTENTIAL

Logistics industry has a relative short history in China and the market conditions and governmental policies are still at a pre-mature stage. Infrastructure-typed logistics resources in China are scattered and despite there is a number of commercial logistics companies occupying certain logistics resources, it is difficult for business entities to consolidate different types of logistics resources. An efficient administrative system with proven quality is still on demand.

The Group's controlling shareholder, SIHC, has good communication channels with relevant authorities of the Shenzhen Municipal Government. The Group participates in the logistics industry at a comparably early stage and possesses state-of-the-art information systems and supply chain management techniques. While strengthening the management of its business, the Group will also closely monitor logistics business and resources with great potential and duly analyse them in order to capitalise on opportunities for investment, consolidation and development in the future.

In November 2002, the China Securities Regulatory Commission, the Ministry of Finance and the State Economic and Trade Commission jointly issued "Notice on Issues Relating to the Transfer of State-owned Shares and Legal Person Shares in Listed Companies to Foreign Investors". This new policy serves as a basis upon which the Group is able to implement its established development strategies. The Group shall capitalise on this valuable opportunity 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.

Li Hei Hu
Chairman

Hong Kong, 22 April 2003