

Report

of the Directors

The directors herein present their report and the audited financial statements of the Company and the Group for the year ended 31 December 2002.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities of the Group are the provision of total logistics and transportation ancillary services as well as investment, operation and management of related assets and projects. Apart from the above, the Group is also engaged in property investment. Details of the principal activities of the Company's principal subsidiaries, associates and jointly-controlled entities are set out on pages 100 and 101.

SEGMENT INFORMATION

An analysis of the Group's turnover and contribution to results by principal activities and geographical area of operations for the year ended 31 December 2002 is set out in note 5 to the financial statements.

RESULTS AND DIVIDENDS

The Group's results for the year ended 31 December 2002 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 45 to 98.

The directors do not recommend the payment of any dividend in respect of the year ended 31 December 2002.

SUMMARY FINANCIAL INFORMATION

A summary of the published results and of the assets and liabilities of the Group for the last five financial years, as extracted from the audited financial statements and reclassified as appropriate, is set out on page 7.

FIXED ASSETS

Details of the movements in the fixed assets of the Group during the year are set out in note 15 to the financial statements.

INVESTMENT PROPERTIES

Details of the movements in the investment properties of the Group during the year are set out in note 16 to the financial statements. Further particulars of the Group's investment properties are set out on page 99.

SHARE CAPITAL AND SHARE OPTIONS

Details of the movements in the share capital and share options of the Company during the year, together with the reasons therefor, are set out in note 29 to the financial statements.

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PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Bye-Laws or the Companies Act of Bermuda which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year.

RESERVES

Details of the movements in the reserves of the Company and the Group during the year are set out in note 30 to the financial statements.

DISTRIBUTABLE RESERVES

At 31 December 2002, the Company had no reserves available for cash distribution and/or distribution in specie (2001: Nil). However, under the Companies Act of Bermuda, the Company's share premium account may be distributed in the form of fully paid bonus shares and the Company's contributed surplus may be distributed under certain circumstances.

PROPOSED REDUCTION OF SHARE PREMIUM ACCOUNT

The board of directors proposes to the shareholders for their approval in the Special General Meeting to be held on 23 May 2003 a reduction of HK\$514,619,000 from the share premium account of the Company with the amount to be directly applied to offset the accumulated losses of the Company in full.

MAJOR CUSTOMERS AND SUPPLIERS

The percentages of sales and purchases for the year attributable to the Group's major customers and suppliers are as follows:

Sales

— the largest customer	20%
— five largest customers combined	50%

Purchases

— the largest supplier	22%
— five largest suppliers combined	33%

One of the major customers, Shenzhen CSG Architectural Glass Company Limited, is a wholly-owned subsidiary of CSG Technology Holding Co., Ltd., which is the Company's 24.28% owned associate.

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Save as disclosed above, none of the directors, their associates or any shareholder (which to the knowledge of the directors owns 5% or more of the Company's share capital) had an interest in the major customers or suppliers noted above.

DIRECTORS

The directors of the Company during the year and up to the date of this report were:

Executive Directors

Mr. Li Hei Hu
Mr. Chen Chao
Mr. Li Jing Qi
Mr. Qiao Gang

Non-Executive Directors

Mr. Sun Yu Lin
Mr. To Chi Keung
Mr. Huang Chuan Qi (appointed on 27 February 2002)

Independent Non-Executive Directors

Mr. Leung Ming Yuen, Simon
Mr. Wang Xian Ping
Mr. Ding Xun

In accordance with the Company's Bye-Law 109(A) (supplemented by Bye-Law 189(ix)), Messrs. Li Hei Hu, Sun Yu Lin and Wang Xian Ping will retire by rotation at the forthcoming annual general meeting and, being eligible, will offer themselves for re-election.

Under the terms of their appointments, the non-executive directors and the independent non-executive directors are not appointed for specific terms but are subject to retirement by rotation in accordance with the Company's Bye-Laws.

DIRECTORS' BIOGRAPHIES

Biographical details of the directors of the Company are set out on pages 32 to 33 of this Annual Report.

DIRECTORS' SERVICE CONTRACTS

None of the directors proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

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DIRECTORS' INTERESTS IN CONTRACTS

None of the directors had a material interest in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the year.

DIRECTORS' INTERESTS IN SHARES AND SHARE OPTIONS

The interests of the directors in the share options of the Company are separately disclosed in the section headed "SHARE OPTION SCHEME" below.

Share options granted by an associated corporation

Name of director	Number of share options held	Nature of interest
Mr. Li Hei Hu	60,000,000	Personal
Mr. Chen Chao	30,000,000	Personal
Mr. Li Jing Qi	13,500,000	Personal
	103,500,000	

The above share options were granted by Shenzhen High-Tech Holdings Limited, an associate of the Company, pursuant to the share option scheme approved by its shareholders on 17 November 2000. The subscription price per share payable upon the exercise of the share options is HK\$0.1945 and the share options are exercisable from 21 March 2001 to 16 November 2010 (both dates inclusive).

At 31 December 2002, according to the register maintained by the Company pursuant to section 29 of the Securities (Disclosure of Interests) Ordinance ("SDI Ordinance"), apart from the above and the share options granted by the Company as disclosed in the section headed "SHARE OPTION SCHEME" below, none of the directors or their associates had any personal, family, corporate or other interests in the shares and share options of the Company or any of its associated corporations as defined in the SDI Ordinance.

Part XV of the Securities and Futures Ordinance (Cap.571) ("SFO") replaces the repealed SDI Ordinance with effect from 1 April 2003. As at the date of this Report, the interest of directors, chief executives or their associates of the Company in the share capital of the Company or any of its associated corporations as defined in Part XV of the SFO which require notification to the Company and The Stock Exchange of Hong Kong Limited ("Stock Exchange") pursuant to Section 341 of the SFO were the same as disclosed in this section and the section headed "SHARE OPTION SCHEME" below.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Apart from as disclosed under the sections headed "DIRECTORS' INTERESTS IN SHARES AND SHARE OPTIONS" above and "SHARE OPTION SCHEME" below, at no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other

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body corporate granted to any directors or their respective spouse or children under 18 years of age, or were any such rights exercised by them, or was the Company or any of its subsidiaries a party to any arrangement to enable the directors, their spouse or children under 18 years of age to acquire such rights in any other body corporate.

SHARE OPTION SCHEME

The Company operates a share option scheme (the "Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the Scheme include any employee or director of the Company or its subsidiaries. The Scheme became effective on 16 April 1994 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date, i.e. until 15 April 2004.

The maximum number of unexercised share options currently permitted to be granted under the Scheme is an amount not exceeding, upon their exercise, 10% of the shares of the Company in issue from time to time. As at 31 December 2002, the number of shares issuable under the share options granted under the Scheme was 231,000,000 (2001: 209,600,000), representing approximately 2.1% (2001: 1.9%) of the Company's shares in issue on that date.

No eligible participants of the Scheme shall be granted an aggregate number of share options which exceed 25% of the aggregate number of shares issued and issuable under the Scheme.

The offer of a grant of share options may be accepted within 28 days from the date of the offer with a cash consideration of HK\$1 in total payable by the grantee. The exercise period of the share options granted is determinable by the directors, and commences after a vesting period of one month and ends on a date which is not later than five years from one month after the share options are accepted by the grantee or the expiry date of the Scheme, if earlier.

Under the Scheme, the exercise price of the share options is determinable by the directors, and shall not be less than the higher of (i) a price being not less than 80% of the average closing price of the Company's shares as quoted on the Stock Exchange for the five trading days immediately preceding the date of offer; and (ii) the nominal value of the shares of the Company.

Effective from 1 September 2001, the exercise price of the share options must not be less than the higher of (i) the average closing price of the Company's shares as quoted on the Stock Exchange for the five trading days immediately preceding the date of the offer; and (ii) the closing price of the Company's shares as quoted on the Stock Exchange on the date of the offer in accordance with the new rule 17.03 of the Rules Governing the Listing of Securities (the "Listing Rules") on the Stock Exchange.

The total number of shares available for issue under the Scheme as at the date of this Annual Report is 858,671,162, representing approximately 7.7% of the issued share capital of the Company on that date.

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The following share options were outstanding under the Scheme during the year:

Name and category of participant	Number of share options					Date of grant of share options*	Exercise period of share options	Price of Company's shares***		
	As at 1 January 2002	Granted during the year	Exercised during the year	Lapsed during the year	As at 31 December 2002			Exercise price of share options**	As at date of grant of share options	As at date of exercise of share options
								HK\$	HK\$	HK\$
Directors										
Mr. Li Hei Hu	35,000,000	—	—	—	35,000,000	21 December 2000	22 January 2001 to 15 April 2004	0.272	0.290	N/A
Mr. Chen Chao	30,000,000	—	—	—	30,000,000	21 December 2000	22 January 2001 to 15 April 2004	0.272	0.290	N/A
Mr. Li Jing Qi	30,000,000	—	—	—	30,000,000	21 December 2000	22 January 2001 to 15 April 2004	0.272	0.290	N/A
Mr. Qiao Gang	15,000,000	—	—	—	15,000,000	21 December 2000	22 January 2001 to 15 April 2004	0.272	0.290	N/A
Mr. Sun Yu Lin	15,000,000	—	—	—	15,000,000	21 December 2000	22 January 2001 to 15 April 2004	0.272	0.290	N/A
Mr. To Chi Keung	15,000,000	—	—	—	15,000,000	21 December 2000	22 January 2001 to 15 April 2004	0.272	0.290	N/A
Mr. Huang Chuan Qi	—	15,000,000	—	—	15,000,000	17 July 2002	18 August 2002 to 15 April 2004	0.336	0.315	N/A
	140,000,000	15,000,000	—	—	155,000,000					
Other employees										
In aggregate	2,000,000	—	(2,000,000)	—	—	4 February 1998	5 March 1998 to 4 March 2003	0.165	—	0.250
	65,600,000	—	—	(400,000)	65,200,000	21 December 2000	22 January 2001 to 15 April 2004	0.272	0.290	N/A
	2,000,000	—	—	—	2,000,000	18 May 2001	19 June 2001 to 15 April 2004	0.308	0.400	N/A
	—	4,300,000	—	—	4,300,000	5 February 2002	6 March 2002 to 15 April 2004	0.310	0.300	N/A
	—	4,500,000	—	—	4,500,000	17 July 2002	18 August 2002 to 15 April 2004	0.336	0.315	N/A
	69,600,000	8,800,000	(2,000,000)	(400,000)	76,000,000					
	209,600,000	23,800,000	(2,000,000)	(400,000)	231,000,000					

* The vesting period of the share options is one month.

** The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital.

*** The price of the Company's shares disclosed as at the date of the grant of the share options is closing price as quoted on the Stock Exchange of the trading day immediately prior to the date of the grant of the share options. The price of the Company's shares disclosed as at the date of the exercise of the share options is the weighted average closing price of the shares immediately before the date on which the share options within the disclosure category were exercised.

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Summary details of the Scheme are also set out in note 29 to the financial statements.

The financial impact of share options granted is not recorded in the Company's or the Group's balance sheet until such time as the share options are exercised, and no charge is recorded in the profit and loss account or balance sheet for their cost. Upon exercise of the share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Share options which are lapsed or cancelled prior to their exercise date are deleted from the register of outstanding share options.

The directors consider it inappropriate to disclose a theoretical value of the share options granted to employees during the year, because in the absence of a readily available market value for share options on the ordinary shares of the Company, the directors were unable to arrive at an accurate assessment of the value of the share options.

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2002, the following interests of 10% or more of the issued share capital of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 16(1) of the SDI Ordinance:

Name	Number of ordinary shares held	Percentage of the Company's issued share capital
Shenzhen Investment Holding Corporation ("SIHC") — <i>Note</i>	4,963,684,042	44.25
Ultrarich International Limited ("Ultrarich")	4,836,363,636	43.12

Note: Ultrarich is a wholly-owned subsidiary of SIHC and accordingly, SIHC was deemed to be interested in the 4,836,363,636 shares of the Company owned by Ultrarich as disclosed above. The remaining shares of the Company of which SIHC were interested in, were owned by another wholly-owned subsidiary of SIHC.

Save as disclosed above, the Company is not aware of any parties holding 10% or more of the issued share capital of the Company that were required to be recorded pursuant to Section 16(1) of the SDI Ordinance.

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SUBSTANTIAL SHAREHOLDERS (continued)

Part XV of the SFO replaces the repealed SDI Ordinance with effect from 1 April 2003. As at the date of this Report, so far as is known to any director or chief executive of the Company, the following shareholders, other than a director or chief executive of the Company, had interest or short position in the shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who were, directly or indirectly, interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company and the amount of each of the shareholder's interest in such securities were as follows:

Name	Number of ordinary shares held	Percentage of the Company's issued share capital
SIHC — <i>(Note 1)</i>	4,963,684,042	44.25
Ultrarich	4,836,363,636	43.12
Cheung Kong (Holdings) Limited	803,485,000	7.16
Li Ka Shing — <i>(Note 2)</i>	803,485,000	7.16

Notes:

(1) Apart from the 4,963,684,042 shares in the Company, SIHC also holds a convertible note which will be converted into 904,109,589 shares in the Company if SIHC exercises the right of conversion in full.

(2) As stated in Form 1 — Individual Substantial Shareholder Notice filed to the Stock Exchange on 14 April 2003.

Save as disclosed above, as at the date of this Report, the Company is not aware of any other shareholders who had interests or short position in the shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who were, directly or indirectly, interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company.

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RELATED PARTY TRANSACTIONS AND CONNECTED TRANSACTIONS

Details of significant related party transactions of the Group, which also constitute connected transactions under the Listing Rules, are set out in note 35 to the financial statements.

POST BALANCE SHEET EVENTS

Details of the significant post balance sheet events of the Group are set out in note 36 to the financial statements.

CODE OF BEST PRACTICE

In the opinion of the directors, the Company complied with the Code of Best Practice (the “Code”), as set out in Appendix 14 of the Listing Rules, throughout the accounting period covered by the Annual Report, except that the non-executive directors and independent non-executive directors of the Company were not appointed for specific terms as required by paragraph 7 of the Code, but are subject to retirement by rotation and re-election at the Company’s annual general meeting in accordance with the Company’s Bye-Laws.

AUDIT COMMITTEE

The Company established the Audit Committee in 1995. In establishing and adopting the terms of reference for the Audit Committee, the directors have had regard to the “Guide for the Formation of an Audit Committee” issued by the Hong Kong Society of Accountants.

The Audit Committee performs the key link between the Board of Directors and the auditors of the Company in respect of the audit work of the Group. The Audit Committee is also responsible for the review and supervision of the financial reporting of the Group as well as the review of the efficiency of the external audit work, internal control and risk evaluation of the Company. The Audit Committee comprises three independent non-executive directors, namely Mr. Leung Ming Yuen, Simon (Chairman), Mr. Wang Xian Ping and Mr. Ding Xun. Two Audit Committee meetings were held during this financial year.

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AUDITORS

Messrs. Ernst & Young retired and Messrs. PricewaterhouseCoopers was appointed as the auditors of the Company at the annual general meeting of the Company held on 24 May 2002. Save as disclosed above, there have been no changes of auditors of the Company during the past three years. Messrs. PricewaterhouseCoopers will retire and a resolution for their re-appointment as the auditors of the Company will be proposed at the forthcoming annual general meeting.

ON BEHALF OF THE BOARD

Li Hei Hu

Chairman

Hong Kong, 22 April 2003