

CEO'S Report

FINANCIAL RESULTS

For the year ended 31 December 2002, the Group recorded a turnover of approximately HK\$18.5 million (2001: HK\$63 million), representing a decrease of 70.6% over previous year's figure. The decrease was mainly due to a deemed disposal of major subsidiaries of the Group in May 2002. Net loss from ordinary activities attributable to shareholders amounted to approximately HK\$89 million (2001: HK\$24 million). The unfavourable results were mainly due to increase in costs incurred by the Group in research and development on logistics technology business, further expansion and consolidation of its logistics technology business and impairment in value of long term listed investments.

FINANCIAL POSITION

In April 2002, the Group, using its internal resources of approximately HK\$44 million, increased its shareholding in New World CyberBase Limited ("NWCB") to approximately 27.5% through subscribing for and underwriting the shares of NWCB under a rights issue exercise. As a result of this transaction, NWCB became an associated company of the Group.

In May 2002, the Group placed 159,121,700 new shares to a subsidiary of Legend Group Limited ("Legend"), the largest IT corporation in China, at an issue price of HK\$0.1332 per share. This placement generated a net cash inflow of approximately HK\$21 million to the Group. Such proceeds have been used by the Group as general working capital.

In order to further enhance its Fourth Party Logistics ("4PL") business, on 23 October 2002, the Group acquired the remaining 45.702% equity interest in Fusion Tech Holding Limited ("Fusion Tech"). The consideration was satisfied by cash of HK\$400,000 and issue and allotment of 300,000,000 new shares of the Company to the vendor. Immediately after the acquisition, Fusion Tech became an indirect wholly-owned subsidiary of the Company.

As at 31 December 2002, cash and bank balance for the Group amounted to approximately HK\$37.7 million (2001: HK\$131 million). The Group has no bank borrowings as at 31 December 2002 (2001: nil). Notwithstanding this situation, the gearing ratio of the Group as at 31 December 2002, dividing the outstanding amount of convertible bond and non-current finance lease payables by shareholders' equity, was 0.158 (2001: 0.13).

The Group's monetary assets and liabilities were principally denominated in Hong Kong dollars and Renminbi. During the year under review, there has been minimal fluctuation in exchange rate between Hong Kong dollars and Renminbi and accordingly, the Group's exposure to currency exchange risk was minimal.

BUSINESS REVIEW

To further strengthen its foothold and reinforce its leading position in the logistics industry in China, the Group has been focusing on the development of its integrated 4PL solutions.

Despite the global economic downturn, which continues to inflict a negative impact on the business environment, the economy in China has seen steady growth presenting tremendous opportunities and potential for businesses. Boosted further by its accession to World Trade Organisation ("WTO"), the Group sees a promising future for China's logistics industry. To capture arising business opportunities, the Group has made strategic moves to strengthen its presence in the logistics industry in China, in parallel with its vision to become a leading total logistics technology solutions and services provider. During the review year, the Group has committed every effort into offering best-fit supply chain and logistics technology management solutions and services as well as further enhancing its 4PL services for customers.

Integrated Fourth Party Logistics Services

In October 2002, the Group increased its stake in Fusion Tech from 54.298% to 100%. The key operating arm of Fusion Tech is Asia Logistics (Tianjin) Limited ("ALT (TJ)"). ALT(TJ) is a leading 4PL solutions provider with an established nationwide network in China and offers a wide range of logistics value-added services. These include information collection, analysis, matching services, business management, risk control, etc. The solutions provide customers with timely, economical and reliable one-stop, door-to-door integrated logistics services, which include logistics management consulting, warehousing, transportation, packaging, goods tracking systems and professional training.



In line with its strategy to reinforce its 4PL solutions and services, the Group has invested in strengthening its nationwide network in China. With the expansion to approximately 200 distribution services stations in its cross-province logistics network, customers are presented with more comprehensive delivery channels and networks. As its logistics network keeps expanding and logistics activities through it increases, returns for the Group is also expected to grow significantly.

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Supply Chain and Logistics Consultancy Services and Solutions

Capitalizing on its extensive knowledge in the logistics industry and solid experience in supply chain and logistics consultancy services, the Group is offering turnkey supply chain and logistics consultancy services spanning the total customer spectrum. From high-end to low-end levels, and ranging from supply chain management and logistics consulting services to door-to-door integrated logistics services, the Group's services cater for the diversified needs of customers.



During the year under review, the Group has obtained several major projects from the Hong Kong Housing Authority, Tianjin Zhongxin Pharmaceutical Group Corporation Ltd. ("Zhongxin Pharmaceutical"), and EXEL Singapore Pte. Ltd ("EXEL"). The first phase of the Zhongxin Pharmaceutical project, covering the provision of supply chain consultancy and implementation of Enterprise Resources Planning (ERP) solutions for its internal work processes, was completed in October 2002. The first phase of the project for EXEL, involving the provision of logistics consulting and implementation of solutions for internal work processes was also completed in November 2002. The Group also commenced its work on the next phase of the two projects in early 2003.

To ensure that customers will enjoy safe, economical and reliable logistics services, the Group is committed to providing best-fit solutions using advanced logistics technologies. Adding to its technology model which combined electronic logistics and mobile commerce, the Group has invested in research and development on a new logistics information application and service system that integrates a range of advanced technologies. This system pools together capabilities of top-notch Global Positioning Systems (GPS), Geographic Information Systems (GIS) and mobile technologies, which could provide real-time information enquiries, ordering services and vehicle position monitoring to customers in the near future.

Strategic Investments

During the review year, sharing the view that there will be strong and growing demand for IT services, as a result of the urgent need among China's enterprises for computerization to enhance management efficiency and competitiveness, the Company attracted Legend as a strategic shareholder, to jointly develop IT management consulting business in China with its subsidiary, Han International Consulting Company Limited ("Han"). Upon completion of the subscription of 51% equity interest in Han by Legend in May 2002, Han became an associated

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company of the Company. Capitalizing on Legend's leading position in the IT market and its strong customer network and Han's capability in providing professional consultancy services in management model reforms and re-engineering of business processes, plus the Company's own expertise, the Group is confident that its iConsulting business will grow at increasing momentum. This strategic cooperation will enable the Group to establish its

leading position in the IT management consulting business, creating a "triple-win" situation for all.

In April 2002, the Group increased its shareholding interest in NWCB to approximately 27.5%, allowing it to benefit from NWCB's well-established IT and software business and boost the development and implementation of IT and software products and services in these areas. As a result, the Group's supply chain management and logistics solutions as well as its IT and software solutions and services were considerably enhanced, complementing its product offerings to customers.

Joint Venture

The Group and ZenSar Technologies Limited, a leading software solutions provider from India with global operations, have joined hands to form HanZen Technologies Consulting (Zhuhai) Limited ("HanZen"), the first Sino-Indian consulting and technology joint venture. Headquartered in Zhuhai, HanZen opened its first offshore software development centre in China which commenced business in Zhuhai's South Software Park in October 2002.



To meet the emerging need for local and offshore IT development and support in China after its accession to WTO, the offshore software development center provides Software Engineering Institute's Capability Maturity Model (SEI-CMM) Level 5 credentials quality consultancy services including training courses, professional consultation, CMM assessment, etc. to software corporations. It also offers international standards software development and support

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services, covering full life cycle application software development, conversions, migrations, re-engineering, on-site and offshore application software maintenance, product development and customization, specialized services, etc., to both local and global customers in China. Committed to raising the standards of the software industry in China, the centre is going to organize training and seminars for local software corporations, enabling them to understand the importance and the need to achieve the Software Engineering Institute's Capability Maturity Model (SEI-CMM) Level 5 standard.

Research and Development

The XiAn Research and Development Centre delivered satisfying results this year. The centre has developed and launched several solutions such as Customs Declaration Express and Point of Sales (POS) solution, which is adopted in the EXEL project and Zhongxin pharmaceutical supermarket project respectively. XiAn Research and Development Centre is now developing Distribution Dispatch Solution, which allows customers to place orders and transmit the distribution information.



In addition to the XiAn Research and Development Centre, the Group also established 北方交大亞洲物流研究中心 with 北方交通大學現代物流研究所 to further strengthen its research capabilities. The centre specializes in scientific research in the logistics industry, planning and design, engineering consulting, personnel and business training.

PROSPECTS

With the full support policy and direction of the Chinese government, tremendous potential has opened up in the logistics market in the mainland. With its strengthened capabilities in research and development and enhanced solutions and services, the Group will continue to focus its efforts on the development of 4PL business.

Provision of Solutions and Services for Regional Logistics



As a leading 4PL solutions and services provider, the Group is committed to raising its competitive edge in the logistics market. With a greater focus on regional logistics projects, the Group will continue to enhance its core solutions and services as well as its value-added services to customers.

In December 2002, the Group has co-operated with Haikou Harbour Group Co. (“Haikou Harbour Group”) in Hainan Province, with the aim of upgrading the operation capabilities of Haikou Harbour. With extensive experience in advanced international logistics management, the Group will assist Haikou Harbour Group in providing total logistics services. Haikou Harbour will also see the establishment of a total multi-channel united transportation logistics network, boosting its role as a centralized transfer point. Furthermore, The powerful logistics network will allow the unification of existing service scope and price, thus offering strong benefits to consigners and forwarding parties. Through this long-term cooperation, stable revenues are expected for the Group.

One of the Group's first regional logistics projects, the “Freshness Highway” (新鲜通途) campaign, was launched in cooperation with the Hainan provincial government. Introducing high-end logistics technology to the agricultural industry in Hainan province, the joint campaign aims to enhance Hainan Province's brand name and the competitiveness of its quality agricultural products in the market, while also to accelerate the logistics activities of the province's agricultural products. The Group, with its approximately 200 nationwide distribution services stations, advanced logistics technologies as well as the logistics information platform, assists agricultural companies to deliver the fresh fruit and vegetables to customers. Through the successful rollout of this project, the Group expects to reinforce its professional position in the high-end logistics industry, thereby attracting more agricultural enterprises across the country to use its advanced and precise cold storage logistics solutions and value-added logistics services. The anticipated achievement of the dual effects of “Agricultural Branding + Logistics Transportation Branding” will create a win-win situation that will benefit both agricultural companies and the Group.



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Supply Chain and Logistics Consultancy Services and Solutions

Following the completion of the first phase of the projects for Zhongxin Pharmaceutical and EXEL, the Group has commenced work on the next phase of the two projects. The second and third phases of Zhongxin Pharmaceutical project cover the development and implementation of logistics management and distribution systems, which will ensure the efficient and timely distribution of services for customers. In the second phase of the EXEL project, the Group, modifying its logistics solution "Customs Declaration Express", will develop a custom-built manufacturing logistics solution based on an offshore development model to help the client integrate all its processes from the procurement of raw materials to customs declarations and product clearance.

Additionally, the Group signed a letter of intent with 南海敦豪有限公司, a logistics company in China, in February 2003. Offering to the customer its wide array of total solutions and services, ranging from professional consultancy to implementation of its high-end logistics solutions and technologies, the Group aims to help the customer raise its management standards and value-added logistics services. The customer will have what it takes for it to achieve its ultimate goal to establish a logistics park, which will provide comprehensive logistics services to its customers.

Recognizing the emerging business opportunities resulting from the supportive government policies, the Group is also going to establish a foothold in the Whampao, Guangzhou Free Trade Zone with the offering of bonded warehousing and transportation logistics services, becoming the first Hong Kong listed company providing such services there. With the offer of comprehensive warehousing services supported by computerized management systems and customs declaration system, the Group hopes to eventually be able to introduce its full range of advanced total solutions and services to local and international corporations in the Guangzhou Free Trade Zone. These services will help customers enhance their overall operating efficiency and management as well as cost effectiveness.

To promote and drive the development of the logistics industry in China, as well as to enhance its logistics professionalism in China, the Group has lined up with professors and elite from several famous universities and leading logistics corporations in both China and Hong Kong to organize logistics management training courses. The courses covering such topics as supply chain and logistics management, modern warehousing and distribution management, legislations, logistics parks, process re-engineering, e-business, etc. are tailored for practitioners in the logistics industry and persons who are interested to start career in the industry.



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The Group is confident that leveraging its comprehensive logistics capabilities supported by high-end technology and information technology and its extensive international market experience, it has established a strong competitive edge in the market. The Group will continue to enhance its solutions and services through investment and collaboration to enable it to stay ahead of the competition in the industry and to accelerate its business growth, to become a leading one-stop supply chain and logistics solutions and services

provider in the Greater China region.

EMPLOYEES

As at 31 December 2002, the Group had over 280 employees. Apart from salaries, the Group also provides training and other fringe benefits to employees which includes provident funds, medical insurance and share options. The remuneration policy and packages of the Group's employees are reviewed on a regular basis.

Chan Wai Keung, Ringo

Chief Executive Officer

Hong Kong, 24 April 2003

TABLE OF COMPETITIVE STRENGTHS OF THE GROUP

Set up nationwide logistics services network	Establish approximately 200 nationwide distribution services stations in China
Capable of providing SEI-CMM Level 5 consulting services and outsourcing development centre in China	Set up the first Sino-Indian consulting and technologies joint venture in China, providing clients with SEI-CMM Level 5 quality consulting services and software solutions in China.
Provide very specific one-stop logistics solution to agricultural enterprises in Hainan	One of the leading companies providing precise cold storage logistics solutions and value-added services to agricultural enterprises across China
Capable of providing Bonded Warehouse Services	The first Hong Kong listed company to engage in Bonded Warehousing services in the Free Trade Zone of Whampao, Guangzhou
Develop a premium logistics training forum by liaising with several renowned universities and logistics leaders in China	The first enterprise to forge partnership with renowned universities to develop a premium logistics training forum for industry players to share ideas and develop insights.